Nation's Business®

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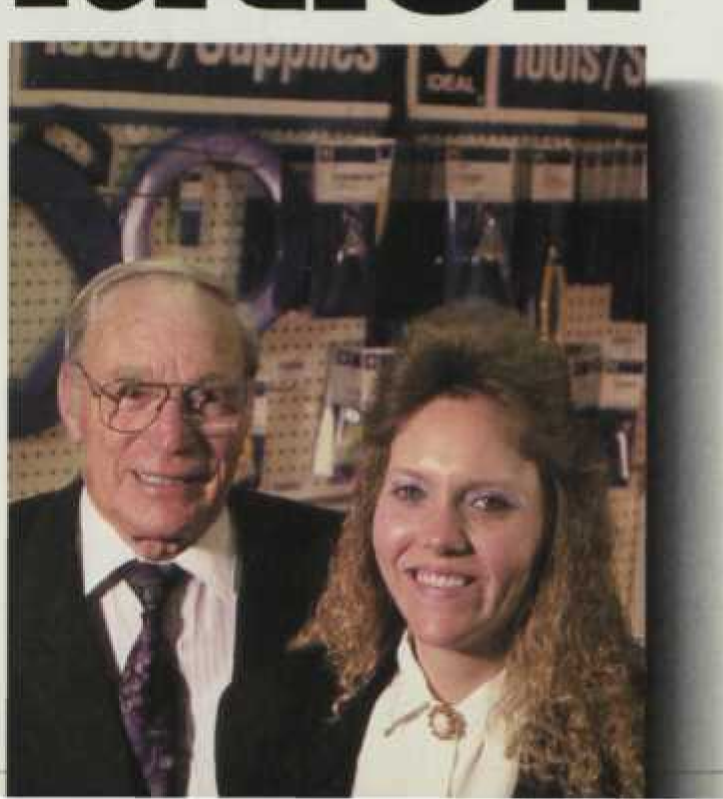
Why Costs Of Jobless Insurance Are Rising

Taking Advantage Of Easier Credit

Stock-Option Rule Could Hurt Growing Firms

The Paycheck Solution

The success of welfare reform could depend on entrepreneurs like Ralph Sturgill of Ashland, Ky., who hired Susan Ison off relief rolls.



AUGUST 1994

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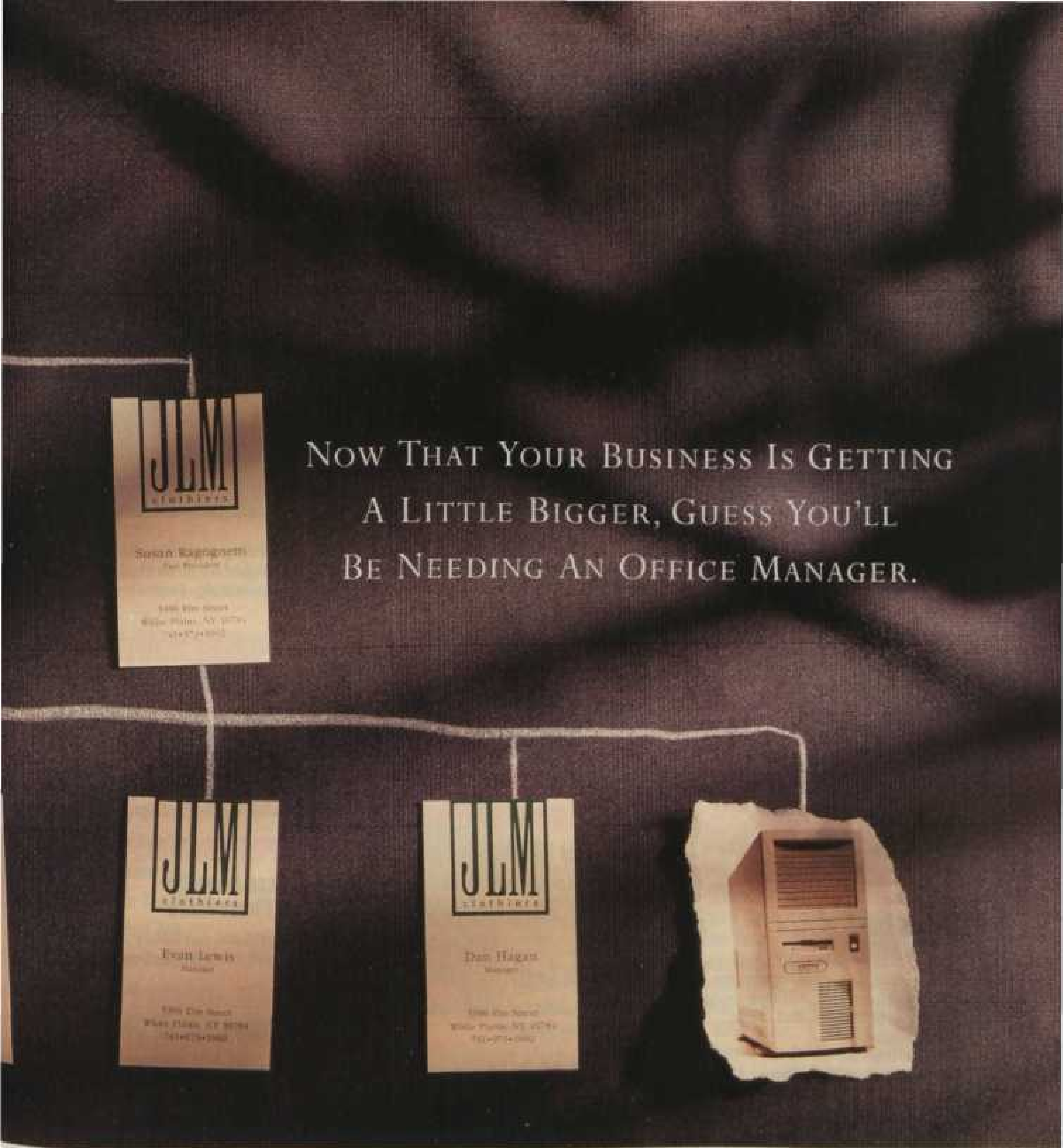
These days, all it takes is a little success to overload your business. The more you demand of your computers, the slower things can get. Well, that's because PCs are made to be PCs. And at this point, what you really need is a server — the most efficient way to get your PCs working together.

So we'd like to introduce you to the Compaq ProSignia VS. Now, for the price of a desktop, you can get a real, industrial-strength server made by the company who knows the technology best. (Compaq is recognized as the world leader in servers.*)

Unlike a PC, the ProSignia VS is specifically designed for the job of powering a computer network in small- to medium-sized businesses. It's optimized for high-speed file transfers, to eliminate the finger-tapping during everyday tasks, like calling up a customer record to take an order. It also expands easily to



provide vast, centralized storage as your business grows larger.

And while most servers are complicated, the ProSignia VS can make your life easier. Our optional CD-based SmartStart simplifies the whole process of setting up a reliable system. And Insight Manager (also an option) keeps an eye on key parts, pin-pointing problems *before* they can disrupt operations.

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PHOTO: ©PATRICIA CORDELL

Cooperative employers *such as Jon Egge, through their willingness to hire public-aid recipients, are showing that welfare-to-work could be a most effective approach for reforming the welfare system. Cover Story, Page 18.*

PHOTO: ©NANCY PIERCE

Desktop-publishing *resources abound, says computer artist Lou Kinard. Small-Business Computing, Page 50.*

VOL. 82, NO. 8

PHOTO: ©ROBERT HOLMGREN

Complementary strengths *have helped Wilson Wong and Jeff Lin build their computer company. Making It, Page 14.*

DEPARTMENTS

Cover Design: Hans A. Baum
Cover Photo: ©Jim Callaway

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Editor's Note

A Real Welfare Reform: Work

The term "Social Security" is now generally understood to refer to government benefits paid to retirees. We have forgotten that the original Social Security Act, passed in 1935, also established a federal presence in public-welfare programs, which until then had been the exclusive province of states and localities.

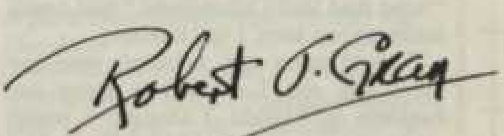
The retirement phase of the Social Security law has become the most popular government initiative ever. Welfare, on the other hand, is among the most reviled. Its costs have gone up relentlessly in good economic times and bad. (The accompanying bars, showing in billions of dollars how costs went up from 1968 to 1992, are from a more-extensive chart on Page 19.) And the perception that the availability of aid encourages dependency intensifies.

Efforts to improve the welfare system in both human and economic terms are again under way, and they are the subject of this month's cover story, "Welfare Reform Could Work" (Page 18), which was written by Senior Editor John S. DeMott. The main theme is the importance of job opportunities in welfare reform. This article will give you a strong sense of the factors that brought welfare to its present state and what needs to be done to change it.

PHOTO: ©LIGHTSCAPE/THE STOCK MARKET

The often-hectic pace of activity in a small business can achieve results but can also cause problems. Such businesses are often the targets of scam artists who hope that the managers and workers are too busy to investigate every sales pitch and solicitation that comes their way every day. The result can be unordered office supplies, fake invoices, useless consulting services, payment for listings in nonexistent business directories, and other types of fraud.

The article on Page 25, "Ferreting Out Con Artists," will alert you to the specific types of scams that you need to guard against. And you'll probably want to share this advice with everybody in your company who has authority to order goods or services.



Robert T. Gray
Editor

Letters

Software That Aids In Decision Making

Your June cover story concentrated on programs for word processing, accounting, spreadsheets, and data bases. This kind of software, though popular because it is often so cheap, does not by itself help solve problems and seldom improves the bottom line.

Programs that fall under the category of decision-support systems help business

owners make better business decisions. For example, there is software that can help a business forecast demand and replenish inventory appropriately.

Nathan Gutman, President
Headway Solutions
Simsbury, Conn.

[Editor's Note: Our cover story focused on those types of software that we thought most small offices would use all the time. We have written about decision-support systems in the past and plan to do so in the future.]

A Company Move That Went Awry

Your July article on intermodal shipping, "Road And Rail Connections," told how a business can save. I say beware.

Several years ago, Arizona's economy hit a low, and I decided to move our business to Florida. I thought I would save by making the move by rail.

When our shipment arrived—more than two weeks late—I discovered first-hand the perils of such forms of shipment. The entire contents of a 40-foot trailer were destroyed when the train traveled during rain. Evidently, the trailer was not in good repair.

After three years in court, our claim was kicked out on a virtual technicality. I cannot describe the havoc this lost shipment caused us.

Harry N. Konst, President
First Capital of America
Buffalo, N.Y.

Liability Lawsuits Exact High Toll

I could not resist responding to the personal-injury lawyer who in his June letter offered an alternative to a May Where I Stand question. The original question asked, "How do you view the argument that by encouraging lawsuits, liability laws deter production of beneficial goods and services?" This question was perfectly valid. Lawsuits do create an atmosphere of fear—for engineers and designers, as well as for CEOs and business owners.

There is only one reasonable answer to the original Where I Stand question: Existing liability laws discourage production of beneficial goods and services.

Tom Determan, Engineering Manager
Brownie Tank Mfg. Co.
Division of Determan Welding & Tank Service, Inc.
Minneapolis

The Davis-Bacon Swindle

The Davis-Bacon Act was written by Congress in 1931 to prevent black Southern workers from competing with Northern construction unions for work. It requires that workers on construction projects involving federal funding be paid the prevailing wage for a particular region—routinely the union wage.

As I prepared to answer the June Where I Stand questions on the Davis-Bacon Act, I realized that the most important question we need to answer was missing. It should read: "Should we continue to waste hundreds of millions of tax dollars annually by continuing the Davis-Bacon swindle—a terrible law conceived in discrimination?"

We can't modify this law enough to make it a good law; Davis-Bacon should be repealed.

Donald R. Dorey, President
Dorey Electric Co.
Norfolk, Va.

[Editor's Note: Question 5 in the poll asked readers whether they thought the law was still relevant. See Page 73 for the results of the Davis-Bacon survey.]

Children's Views Do Matter

In her June letter, Peggy Young asked why *Nation's Business* would run a letter from a sixth-grader. In response, I must say that the rights adults have in this country also extend to children. After all, children will run the world someday.
Jennifer McAdams, Owner
Silver Screen Video
Newport, Ark.

Nurturing Kids' Creativity

I have just one question for Peggy Young: Are you too old to learn from a child?

Please do not stifle the creativity or will to express feelings from this sixth-grader,

who could grow up to be president of the United States. Moreover, there are lots of children in that age group who run successful businesses of their own.
Jeanette C. Haynes
Windee's Metal Industries, Inc.
New Brunswick, N.J.

Downsizing Mistaken For High Turnover

As publisher of the *California Job Journal*, I was quoted in "New Approaches To Job Stress," an article in the May issue.

The article incorrectly said the *Job Journal's* annual employee turnover rate had reached 50 percent by 1992. The author may have confused employee turnover with the downsizing that occurred at our company as a result of the recession in the early '90s. Between December 1990 and February 1992, the *Job Journal* cut its staff from 44 to 20.

In addition, although the *Job Journal* does have an employee quality circle program to study and make improvements in the work environment, the company does not consist of, or operate in, set "teams." Thus, "team members" do not interview prospective employees.

I appreciate this opportunity to set the record straight.
Kathy Masera, Publisher
California Job Journal
Sacramento

Disclosure Requirements For ESOP Companies

The June article on the Employee Stock Ownership Plan (ESOP), "Giving Workers A Company Stake," was excellent. There was, however, a point that was incorrect. ESOP companies are not required to disclose financial information or employees' salaries. The only legal requirement is that employees receive an annual statement of their account balance. Most ESOP companies do share corporate financial information, although only a few share salary information.
Corey Rosen
Executive Director
National Center for Employee Ownership
Oakland, Calif.

An Underwriter, Not A Broker

The June article on new forms of insurance coverage, "Special Coverage For Special Risks," referred to Shand Morahan & Company, Inc., as an insurance brokerage. It is actually the underwriting manager for the Evanston Insurance Co. Both are wholly owned subsidiaries of Markel Corp., based in Glen Allen, Va. As such, Shand Morahan assumes the risk of insurance coverage for a premium. A broker, on the other hand, represents buyers of insurance coverage. Typically, a broker would approach an underwriter to assume the risk.
Paul W. Springman
Chief Operating Officer
Shand Morahan & Company, Inc.
Evanston, Ill.

Massachusetts Firm Developed Test

A Managing Your Small Business item in June incorrectly said that the Predictive Index personality test was developed by Management Development Group, Inc. Actually, the test was developed and is owned by Praendex, Inc., in Wellesley Hills, Mass. Organizations like Management Development are licensed by Praendex to train companies in the use of the Predictive Index. In addition, there is no additional fee for testing job candidates throughout the year, as the item stated.
Rick Sobotka, Vice President
Management Development Group, Inc.
Cleveland

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Because of space limitations, we cannot print all letters received, and those selected for publication may be condensed.*

Entrepreneur's Notebook

By Les Burch

Moving Away From "Me Too"

We introduced a new product to our line in 1987, and before long we knew we had a winner. Sales of the new item, a clear sealant that comes in a clear cartridge, took off. During the next three years, our company, Sashco Sealants Inc., located near Denver, watched revenues triple, reaching $6 million. The product lines that had previously driven the company, meanwhile, accounted for less than 10 percent of those sales.

PHOTO: ©JAMES COOK

Les Burch *has honed his company's strengths.*

We had bet the firm on the new product, buying $600,000 in equipment and more than tripling our production and warehouse space. The clear sealant, called Lexel, succeeded because it was different, almost in a category of its own. It doesn't mar the appearance of the gutters, windows, and doors being treated. And unlike silicone sealants, Lexel can be painted.

When I compared it with the rest of the product line, it was obvious that most of our other goods were "me-too" items—made because the competition had them first, not because we had something better.

Only two of our products—Lexel and a sealant called Big Stretch—were "really us." We eventually developed another product—an adhesive called Glue Buddy—and jettisoned eight longtime products.

At first, members of our sales and management teams were not eager to do this. They feared that big customers—the ones buying all our products—would leave if Sashco eliminated 80 percent of its line. To be honest, we had no idea how those accounts would react. But fear usually means you are focusing on what you have to lose, not on what you stand to gain. In our case, we lost nothing. While a few customers complained about the loss of our other products, no one left us. In fact, revenues and profits grew the year the product line was cut.

Narrowing our focus didn't stop with products. Lexel's success drew the attention of discount stores like Kmart and Home Depot. Up to that point, Sashco's customers included only independent dealers and smaller home center chains and co-ops, like Ace and Tru-Value.

Some sales team members were excited about selling to discounters, if only because five chains—Kmart, Home Depot, Wal-Mart, Builders Square, and Home Base—account for 20 to 25 percent of the hardware market. At the same time, we feared that by selling to discounters, our reputation for quality would suffer and our products would take on the "me-too" image we had worked so hard to avoid.

While a lot of companies like the exposure of building traffic for a national chain, we feared having products sold at or below cost. It is no great honor to be a loss leader when you sell a specialty item—especially when it endangers the enthusiasm of long-standing customers.

One morning, in 1991, our management team discussed Sascho's identity and how we were inclined to introduce more-expensive specialty items for people who are truly concerned about how the products work. Our head engineer, Dan Lewis, was at the table that day. He is the quiet type who soaks up information without much comment, but he has a knack for boiling an hour's conversation down to a single, clear-cut principle. After much discussion, he had this credo for our products: "You can't buy them at Kmart."

That summarized the entire meeting and became the cornerstone of the company's next strategic move. We not only decided not to sell to discounters but also announced our policy to the industry, with full-page ads pledging to independent dealers that our products cannot be purchased at the Big Five chains.

While it took us three years to decide to jettison the old products, it took just two months to make this decision. And though we were, in effect, cutting the company off from a quarter of the market, sales continued to grow. Today, Sashco employs 45 people; revenues last year were more than $7 million.

Entrepreneurs are constantly tempted to expand into markets and products in which their company has no uniqueness. It is a siren song that rarely works.

By reducing our product line and clarifying our distribution policy, we became more important to our customers, and I learned that there is more growth potential in focusing yourself than in answering every call. NB

Les Burch is president of Sashco Sealants Inc. of Commerce City, Colo. He prepared this account with Nation's Business *Contributing Editor Charles A. Jaffe.*

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

What I Learned

The successful business owner doesn't follow the pack but instead focuses on what makes the company unique.

The very reasons you still fly a turboprop will convince you to replace it with this.

That aging turboprop you still have in your fleet was probably the right thing to buy when you bought it. And for a number of years, it was very likely the right thing to fly.

But today there is a new business jet that does everything far better than a turboprop. And does it far more economically.

It's called the CitationJet. And as you might expect, it flies faster, higher and farther than the turboprops. But there's a long list of other ways it outshines the older aircraft as well. And some of the items on that list may surprise you.

It's more efficient.

The CitationJet uses less fuel than turboprops use on virtually any length of trip. While cruising 110 to 140 mph faster.

On a typical 575-mile mission, the CitationJet will arrive 23 minutes sooner than the King Air B200. Yet the much slower King Air will burn more fuel.

On a 1,500-mile trip, the CitationJet will cruise a mile above the King Air, and arrive an hour sooner – yet it will use less fuel.

It's more affordable.

The CitationJet costs less to buy than competing turboprops. And over the years, the resale value of Citations has been among the highest in the industry, well above King Air values.

It's more versatile.

In typical operations, runways of less than 3,000 feet are well within the CitationJet's capability, putting more destinations within reach.

It's easier to fly.

With a flight deck designed to keep pilot workload low, the CitationJet is clearly easier to operate than a turboprop. And the aircraft is FAA-certified for single-pilot operation.

It's more practical.

The CitationJet's 110-to-140 mph speed advantage allows your people to arrive at their destinations sooner. They have more time to do more work. They can get it done earlier, and are more likely to return the same day.

They are less apt to incur the cost of lodging, meals, ground transportation and more. And they aren't as likely to waste part of the next day on a return trip.

How is all this possible?

These best-of-both-worlds advantages are achieved through a natural laminar flow wing and the highly efficient FJ44 turbofan powerplant.

This technology makes the CitationJet inherently fast, responsive and extraordinarily fuel efficient.

And it makes the turboprop obsolete.

It will earn its keep.

The CitationJet is a business tool that will pay for itself as the newest member of your corporate fleet. In the air. Or on the spreadsheet.

Cost of operation, practicality, ease of flying. Even price. Whatever the reasons you're still flying a turboprop, those very same reasons will encourage you to replace it with the remarkable new CitationJet.

For more information on the aircraft that will let you finally move up to an all-jet fleet, call Gary W. Hay, Senior Vice President of Marketing at 1-800-4-CESSNA.

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Dateline: Washington

Business news in brief from the nation's capital.

REVENUE

Congress Again Considers Proposal On Sales Taxes

Congress is taking another serious look at legislation that would enable states to collect sales taxes on their residents' interstate purchases—typically mail-order purchases from catalogs.

A bill introduced by Sen. Dale Bumpers, D-Ark., would shift responsibility for paying sales taxes on such purchases from buyers to interstate sellers. Currently, those who make mail-order purchases are supposed to pay a use tax to their resident states on goods they buy out-of-state. States have had difficulties collecting these revenues, however, and thus they are strongly in favor of the Senate bill—S. 1825, known as the Tax Fairness for Main Street Business Act of 1994.

Bumpers says the lack of enforceable collection procedures creates a loophole that drains state and local revenues from buyers' home states.

Legislation similar to the Bumpers bill has been opposed over the years by the burgeoning mail-order industry because, it says, the measure would do more than allow states to collect sales taxes from out-of-state mail-order houses just as they do from in-state retail businesses. "What started out as a way for states to avoid the difficulties of collecting use tax from residents who purchase consumer goods by mail has evolved into an open invitation to tax most interstate sales of goods," says accountant Tom Grudichak, director of Coopers & Lybrand's Multistate Tax Services in Chicago.

Sen. Dale Bumpers *says his sales-tax bill would plug a revenue loophole.*

Currently, a business generally must be located in the state or have some physical contact there for it to incur tax-collection responsibilities for that state. Bumpers' legislation would eliminate that requirement, says Grudichak.

A state would be allowed to require out-of-state companies to collect sales tax on goods delivered into the state as long as two conditions were met:

■ The seller's total U.S. sales exceeded $3 million in the 12 months ending the preceding Sept. 30, or more than $100,000 came from the state.

■ The company is subject to the state's laws; this normally applies when a company conducts business in the state.

The bill sets aside the traditional "physical contact" requirement for tax-collection responsibility and replaces it with a sales-threshold test, says Grudichak.

While it is still unclear whether the measure will make its way through Congress in this session, tax experts recommend that companies with interstate sales take note of the legislation and its potential impact on their business.

—Joan C. Szabo

INSURANCE

Higher Premiums For Small Companies?

For 49 years, the McCarran-Ferguson Act has granted insurers an exemption from federal antitrust laws. In theory, the exemption allows insurers to share information on losses and claims to determine their rates for certain kinds of property and casualty insurance. In reality, however, the industry sets widely varying rates.

Nevertheless, fueled by allegations from insurance-consumer activists, the perception persists on Capitol Hill that the carriers are using McCarran to "collude" in setting premiums. Consequently, the exemption is in jeopardy, and its demise could mean higher premiums for small-business buyers of property and casualty insurance. The reason premiums could rise: It's traditionally the smaller carriers who have introduced many cheaper insurance "products" and who have kept pressure on the larger carriers to hold premiums in line.

McCarran usually has benefited smaller insurers, who can't easily collect information independently when they are setting rates. Large insurers, with their money and high-powered computers, really haven't needed the data-sharing freedom allowed by McCarran. Without McCarran, say critics of the move to change the law, some small insurers could be driven out of business, with the market left to fewer big insurers, who would then be free to drive up prices.

The American Insurance Association, a major insurer group with 270 members, recently broke the industry's nearly united front against changing McCarran. It unexpectedly dropped its opposition to legislation proposed by Rep. Jack Brooks, D-Texas, chairman of the House Judiciary Committee.

The association's acquiescence comes as the industry is seeking liability relief from requirements of the toxic-waste cleanup program, or Superfund, a burden that could drive some insurers into insolvency. Said one industry lobbyist: "The feeling was, 'You give us Superfund relief, and we'll drop opposition to changing McCarran.' "

—John S. DeMott

PURCHASING

Federal Procurement Reform Moves Closer To Enactment

In what could be one of the bigger benefits for small business to come out of Congress this year, lawmakers in both the House and the Senate have approved legislation that would streamline the federal government's process for purchasing goods and services.

The changes are likely to make selling to Uncle Sam more attractive. Under a bill passed by a voice vote in the Senate in early June, it would become easier for federal agencies to buy commercial, or "off-the-shelf," products, and the rules for purchases under $100,000 would be eased.

Similar legislation, sponsored by Rep. John Conyers Jr., D-Mich., was approved by the House of Representatives in mid-June, also by a voice vote.

Conferees will have to hammer out a key difference between the bills. The Senate bill mandates that purchases under $100,000 be set aside only for small-business bidders; the House bill does not. Many business groups, including the U.S. Chamber of Commerce, support the set-asides.

The federal government buys about $200 billion worth of goods and services each year, and about one-third of procurement dollars go to companies with fewer than 500 employees, according to the U.S. Small Business Administration.

—Laura M. Litvan

Managing Your Small Business

Forging ties with major clients; making teamwork work; dealing with telecommuters.

By Roberta Maynard

PARTNERSHIPS

Hooking Up With The Big Guys

For some small companies, it would be a dream come true to supply products to a major national chain. But for Roberto Espat, who runs a paper-products company that has revenues of $6 million a year, it's becoming old hat. Espat not only has an ongoing agreement to provide paper bags and napkins to McDonald's, he also is negotiating with Wendy's, Burger King, and several smaller fast-food chains.

Espat is president of Roses Southwest Papers, Inc., an eight-year-old family business with 40 employees in Albuquerque, N.M. His company began selling to McDonald's four years ago. Now, his products are sold in 11 states, and about 65 percent of his business comes from McDonald's.

Espat has no written contract with McDonald's Corp. A so-called golden handshake has established a relationship that will continue "as long as you provide what they need," he says. Each year, Roses has enjoyed steady increases in sales to McDonald's.

But wooing a large corporation can be time-consuming and costly. It took Espat two years to nail down an agreement after calling the fast-food giant to arrange an initial appointment at its corporate headquarters in Oak Brook, Ill. Being a minority-owned company afforded entrée, says Espat, but no guarantees. "They won't even look at you if you're not quality-conscious," he says.

Further, Espat has borne the travel costs for subsequent negotiations, which have all taken place at McDonald's headquarters. With his Burger King negotiations, Espat or his representative visits the company's headquarters in Miami about once a month, in addition to talking with his contacts by phone several times a month. "You have to keep reminding them of your existence by calling and sending correspondence," he says.

PHOTO: T. MICHAEL KEZA

Paper-bag maker *Roberto Espat's arrangement with McDonald's rests on a golden handshake—and on his firm's adherence to strict quality standards.*

If you decide to approach a large corporation, encourage company executives to visit your operation, Espat advises, and provide them with references. Several positive news articles about Roses contributed to Espat's success with McDonald's. It also helped that Espat's company had a record of success working with the U.S. General Services Administration to provide paper products to armed forces stationed overseas. Another plus was Roses' export program.

Be prepared to provide information about your firm, including financial reports. Espat also provided bankers' recommendations.

In addition, expect to make changes in your operation. Espat had to ask his own suppliers for a different mix of raw materials to meet McDonald's requirements for 100 percent recycled paper. And he had to adapt to requirements for testing the quality of the raw material, paper strength, and size specifications. He also had to arrange regular visits from an exterminator to ensure that no rodents or insects would enter the building.

His advice in going after big business: "You have to have good quality and service, and you have to be persistent." ■

TEAMWORK

Setting Up Successful Company Work Groups

Simply putting together a team of workers is no guarantee that the assigned task will be done well.

Effective teams share certain common elements, says Ronald F. Norris, a chemical engineer with the Du Pont company who for 20 years has specialized in applying the principles of effective teamwork to different types of business situations.

Included in his new book, *Utilizing Task Teams For Profit Improvement*, published by Pilot Books, in Babylon, N.Y., are key points to remember when setting up and advising your team:

■ Managers who set up the team should develop a clear, shared understanding of the task to be done and the priority of the effort. Specify time limits and the amount of freedom the team will have to achieve its objective. Periodically review these boundaries with the group.

■ Develop criteria before deciding who will be on the team so you can tap workers with the necessary skills and experience. For best results, members should have a strong personal desire to complete the task.

■ Establish a small, diverse team. Diversity encourages innovative theories to address the problem at hand. Replace noncontributors; don't allow them to drain the group's energy.

■ Encourage and allow team members to invest the time early in the process to plan their task, build teamwork, and acquire the knowledge they need.

■ Give team members the freedom to investigate all avenues for possible answers to the challenge, rather than place certain areas, such as pet projects, off-limits.

■ Ask the group to develop practical solutions and recommendations for implementing changes. ■

IMAGE

The Right Way To Do Charitable Work

Doing good deeds can certainly benefit a company's image, but if the effort is not sincere, the public will catch on.

"Too many corporate charitable activities are designed to gain favor instead of making a significant contribution, and it can be painfully transparent," says John R. Graham, president and CEO of Graham Communications, a marketing firm in Quincy, Mass.

Nonetheless, there are ways to do charitable work without being exploitative. Graham suggests that companies considering charitable activities follow these suggestions:

- Make sure the task is worthwhile.
- If possible, make charitable support an extension of a company's normal business activity. For example, an investment firm might work with educators to help teach investment practices. Or an automobile dealer might offer free labor to repair the cars of needy families. Or a paper company might help the small businesses that supply its lumber establish a local habitat for an endangered species.
- Finally, be prepared to stick with the commitment.

Mazonson, Inc., an insurance brokerage and risk-management firm in Peabody, Mass., provides a good example of a company that applied these guidelines, Graham says.

For several years, the company had held a holiday party for 100 local company presidents and CEOs. During the recession, Paul Mazonson, president, lost the support of the hotel that helped stage the annual event. Instead of continuing the parties, he set up a committee to look for charities as possible recipients of a donation from the firm.

The group settled on the Center for Applied Special Technology (CAST), also in Peabody. The center's mission is to expand opportunities for disabled individuals through innovative uses of computer technology. Mazonson decided that it made a good fit with his company, which does a lot of business in electronics.

The 50-year-old, family-owned company was enthusiastic about its involvement with CAST and wanted to share it with customers. Rather than make the donation on its own, the firm made it on behalf of its 700 customers.

Mazonson sent cards to the customers letting them know of the donation. "We got a really great response," he says. "This does two things: It lets our customers share it with us, and it communicates to them the kind of company we are."

Says marketer Graham: "There are significant opportunities to apply the talent, knowledge, and expertise of a business to improving the quality of life in a community. Just make sure to develop a program that serves the beneficiary as well as the company." ■

PHOTO: [illegible] CHAPPELL

Paul Mazonson's insurance brokerage *made a donation to CAST, a Peabody, Mass., organization that helps disabled persons. At the computer, student Rob Park receives encouragement from Bart Pisha, director of research.*

WORK FORCE

The Legal Aspects Of Telecommuting

Do any of your employees ever work from home or some other remote location? If so, be aware that with regard to telecommuters, you are bound by the same safety and wage-and-hour laws that you must adhere to for those who spend each workday in the company's facility, says Patrick J. McCarthy, a labor and employment attorney with Pitney, Hardin, Kipp, and Szuch, in Morristown, N.J.

"Just as employers must keep accurate records of time worked by employees in the office, they must do the same for telecommuters," he says. Telecommuters who are nonexempt are equally entitled by law to claim overtime up to two years after the work was done, even if the employer wasn't aware of the additional time worked.

One way to keep track of off-site workers' time, McCarthy says, is to have workers record the number of hours they worked on a form that they sign each week.

Employers should also be concerned with the safety of telecommuters' off-site workplaces, not only for workers themselves but also for anyone who may be visiting there on business.

Consider added risks of injury, such as work-related chemicals stored on the premises, improper installation of computers, or unsafe work furniture. Equipment in workers' homes must meet the same safety standards as equipment at the office, McCarthy says.

"The growth in telecommuting may eventually bring about different labor and worker-safety laws that address these situations," McCarthy says, "but for now, just because businesses have employees working at home does not relieve them from the application of traditional labor laws."

As the telecommuting trend grows, more and more companies are finding ways to address these concerns. A commonly used tool is a telework agreement between company and worker that sets forth such specifics as hours to be worked, care of equipment, and use of supplies. Some firms include a provision that the workers' homes be visited periodically by a company supervisor to ensure that safe work practices are being followed.

(For more on this working arrangement, see "The Growing Appeal Of Telecommuting," on Page 61.) ■

NB TIP

AIDS At Work

Firms that need help dealing with AIDS in the workplace can find it in a manager's kit developed by the business sector and the U.S. Centers for Disease Control and Prevention.

The kit offers information about policy development, management training, and employee education. Among the management issues discussed are confidentiality, job accommodation, customer concerns, productivity, work disruption, and discrimination. The publication also answers commonly asked questions about legal issues, insurance, and costs.

To order, call 1-800-458-5231, or send $25 to Business Response To AIDS Resource Service, P.O. Box 6003, Rockville, Md. 20849-6003. NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

A Board Room With A View

By Howard Rothman

When Randy Gayner and his partners go to work each morning, they head for an office located in one of the business world's most spectacular settings, with Montana's Glacier National Park right in their back yard. This is, of course, precisely why Gayner and a pair of friends started their two related companies: Glacier Wilderness Guides and Montana Raft Co.

"We were all tired of doing what we were doing," says the 41-year-old Gayner. "We wanted to stay here and have fun."

A native of Cleveland, Gayner moved to Big Sky country in 1976 with a bachelor of science degree in zoology. After several seasons as a backcountry ranger for the National Park Service, he wanted a new way to make a living in an area he had grown to love.

Howard Rothman, a writer in Littleton, Colo., is co-author of Companies With A Conscience: Intimate Portraits of Twelve Firms That Make A Difference, *recently re-released in paperback by Citadel Press.*

Glacier National Park *offered a niche in rafting and wilderness tours for, left to right, Doug Niemann, John Gray, Cris Coughlin Gayner, and Randy Gayner.*

His friends Mark O'Keefe, a state government worker, and Dave Ames, an employee of the U.S. Forest Service, felt the same way. In 1983, when the three realized Glacier had no official backpacking guide service, they proposed the idea to park authorities, who gave them the go-ahead. Other popular parks had already allowed concessionaires to lead day hikers and overnight campers on commercial trips.

"This was around the time James Watt was secretary of the interior, and that helped," Gayner recalls. "He was pushing for the privatization of services in the national parks so the government wouldn't have to provide them."

Success would not come so easily. The three, who initially handled all of the company's business matters while leading every one of its clients along Glacier's trails, quickly developed a favorable reputation as the park's exclusive guide service. But their first three seasons were money-losers, and O'Keefe and Ames decided to move on. With their departure, Gayner took steps that ultimately turned the business around.

First, Gayner and his wife, Cris Coughlin Gayner, now 35, bought out one of the original partners, while longtime area resident John Gray, 48, bought out the other. Then, when one of the few commercial river rafting permits available in the area came up for sale, the company acquired it and began offering guided trips down the Middle Fork and North Fork of the Flathead River. Eventually, it started advertising in national magazines like *Outside* and *Backpacker.*

And at last, Gayner says, the business became profitable.

"But I think it was the time factor more than anything else," he adds. "About 2 million people come through Glacier every year, and more and more of them were starting to hear about us. Plus, it didn't hurt that the whole market for adventure vacations was really on the upswing."

Today, the two enterprises cater to everyone from celebrities such as actress Jill Clayburgh and "Entertainment To-

night" co-host Mary Hart to families from Nebraska and business leaders from New York. Last year the companies' umbrella S corporation employed 30 guides during the season running from May to October. It also tallied 4,200 rafting user days and 2,500 hiking user days (one user day equals one person spending one day on the water or trails) en route to grossing $300,000.

Both of these totals are a far cry from the original company's initial season, when it logged 100 user days on park trails and grossed just $7,000.

Expansion has come at a price, of course; the owners—including longtime employee Doug Niemann, 44, who was recently awarded a 4 percent share in the company—now spend only about 10 percent of their time in the backcountry compared with the 75 to 100 percent originally. Instead, their days are consumed by financial duties, marketing and advertising chores, and insurance matters.

These changes in obligations do not seem to bother them, though, and plans are in the offing for still more enlargement. If they can get the necessary permits, Gayner says, "we're looking to increase our hiking service by offering guides in Yellowstone National Park and to expand our rafting business by buying a permit for the Salmon River."

In the meantime, the partners and their employees—often vacationing schoolteachers, local college students, and winter employees of the local ski resort—will continue showing visitors a good time on the area's trails and white water. And, of course, occasionally taking a peek at the stunning natural wonders in their back yard. ■

A Cut Above The Rest

By Josephine Eccel

For years, Daniel D. Friel Sr. would more often than not carve his family's holiday turkey to shreds. No matter what knife he used, it was always too dull. One day, determined to solve the problem, the Du Pont Co. executive took his best carving knives into his basement workshop and subjected them to every sharpening gadget on the market. He finally concluded that an effective knife sharpener hadn't been invented.

Friel's frustration turned to inspiration some years later. As he neared retirement, he began casting about for a productive alternative to playing golf. In 1985, he founded EdgeCraft Corp., located in Avondale, Pa., and developed the company's flagship product, the Chef'sChoice Professional Model 100 knife sharpener. "I could have gone to work for another company or done consulting, but I wanted something that was challenging," says Friel, 73, EdgeCraft's chairman.

During his 40 years with Du Pont, Friel, a chemical engineer by training, accumulated a vast array of experience that would prove crucial to EdgeCraft. He was instrumental in earning more than 25 patents that sped the company's production lines. Before retiring as director of electronics and instrumentation, Friel was director of a number of Du Pont acquisitions around the world, and he became knowledgeable in foreign patent structures, marketing, and product distribution.

Thanks partly to Friel's foresight in gaining the protection of more than 100 U.S. and foreign patents, his knife sharpeners have been marketed successfully in the United States and sold in international markets fraught with obstacles to American-made products.

Before he left Du Pont, Friel spent weekends and spare time over three years—and $200,000 of his own money—nailing down the technology behind the Chef'sChoice sharpener. By the time he retired, he had determined the precise amount of pressure, the optimum grinding angles, and the most effective abrasives needed to produce a razor-sharp edge.

In the two years between his retirement and EdgeCraft's incorporation, Friel developed the final prototype of his sharpener and formulated a business plan. Everything fell into place when an independent investor, whom Friel had met through Du Pont, agreed to invest the $1 million Friel was seeking to start the business.

PHOTO: GLEN SKOOGFORS—WOODFIN CAMP

EdgeCraft's *Daniel D. Friel Sr., right, and son Dan Jr. review patents that have made the company's knife sharpener a global success.*

Within a year of EdgeCraft's founding, the first sharpeners were coming off the production line in Friel's garage in Greenville, Del., just over the state line from where EdgeCraft is now located, in Pennsylvania's mushroom-growing country.

Its original product, the Model 100 sharpener, which uses orbiting diamond abrasives while the knife blade is held at predetermined sharpening angles, sells for $80 in the United States. It is available through gourmet catalogs and in upscale department and gourmet specialty stores domestically and in 50 countries, including Japan, France, and England.

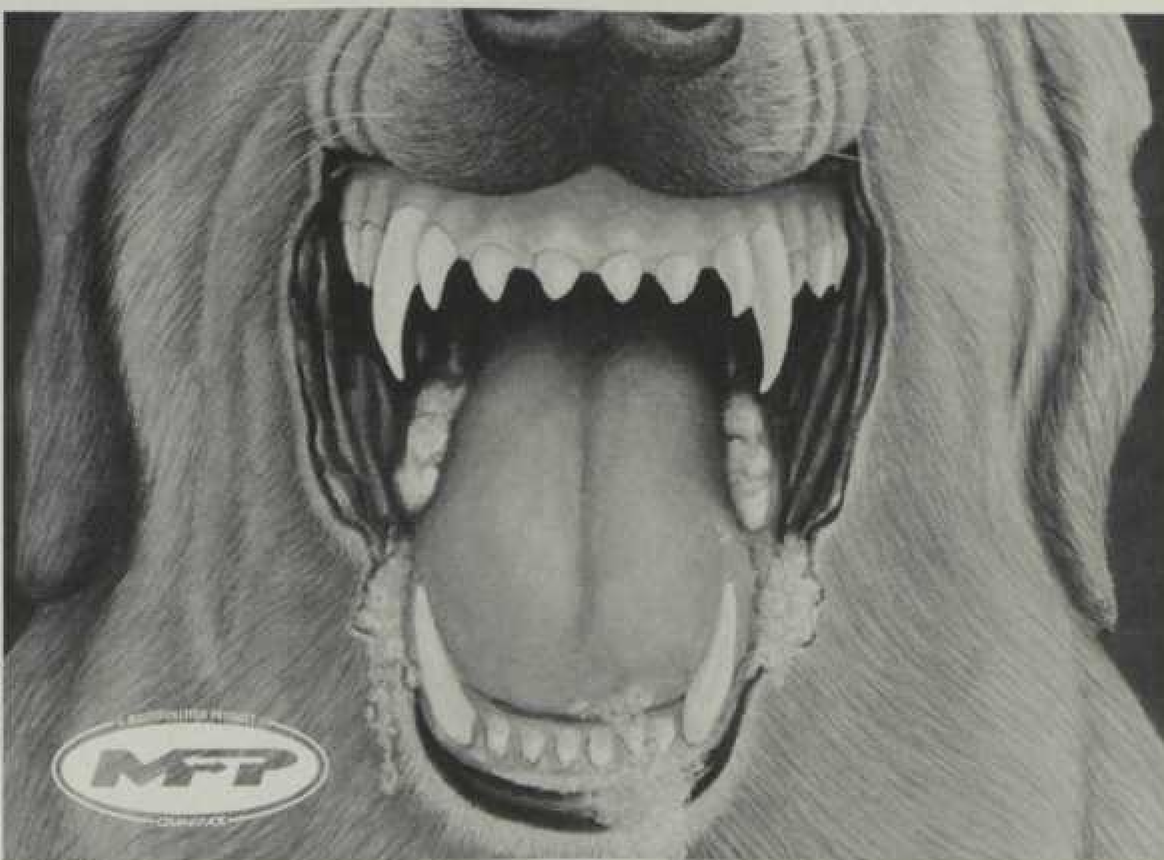
The company has added newer versions of the Model 100, along with a hand-operated knife sharpener, a scissors sharpener, a line of cutlery, poultry and kitchen shears, and a diamond knife for biomedical research. For the sports and hardware market, the company introduced a versatile diamond file that can hone anything from knives and tools to fishhooks and arrowheads.

Friel declines to give out financial information on his privately held company, but he is quick to point out EdgeCraft's growth: The company has introduced more than 10 products in as many years and has grown from one to 100 employees. Its 50,000-square-foot headquarters, built in 1991, houses all operations under one roof and has foundations in place for future expansion.

The company's growth is no surprise to Friel's son, Daniel D. Friel Jr., 34, who is vice president in charge of operations. He points out, for example, that EdgeCraft is making knives out of materials that people said wouldn't work. "One thing I've learned is that the greatest business opportunities come from that sentence: 'It can't be done,'" he says. "Our company is built on just those opportunities." ■

Josephine Eccel is a free-lance writer in Wilmington, Del.

OUR MINIMYTE HAS A MEGA BYTE



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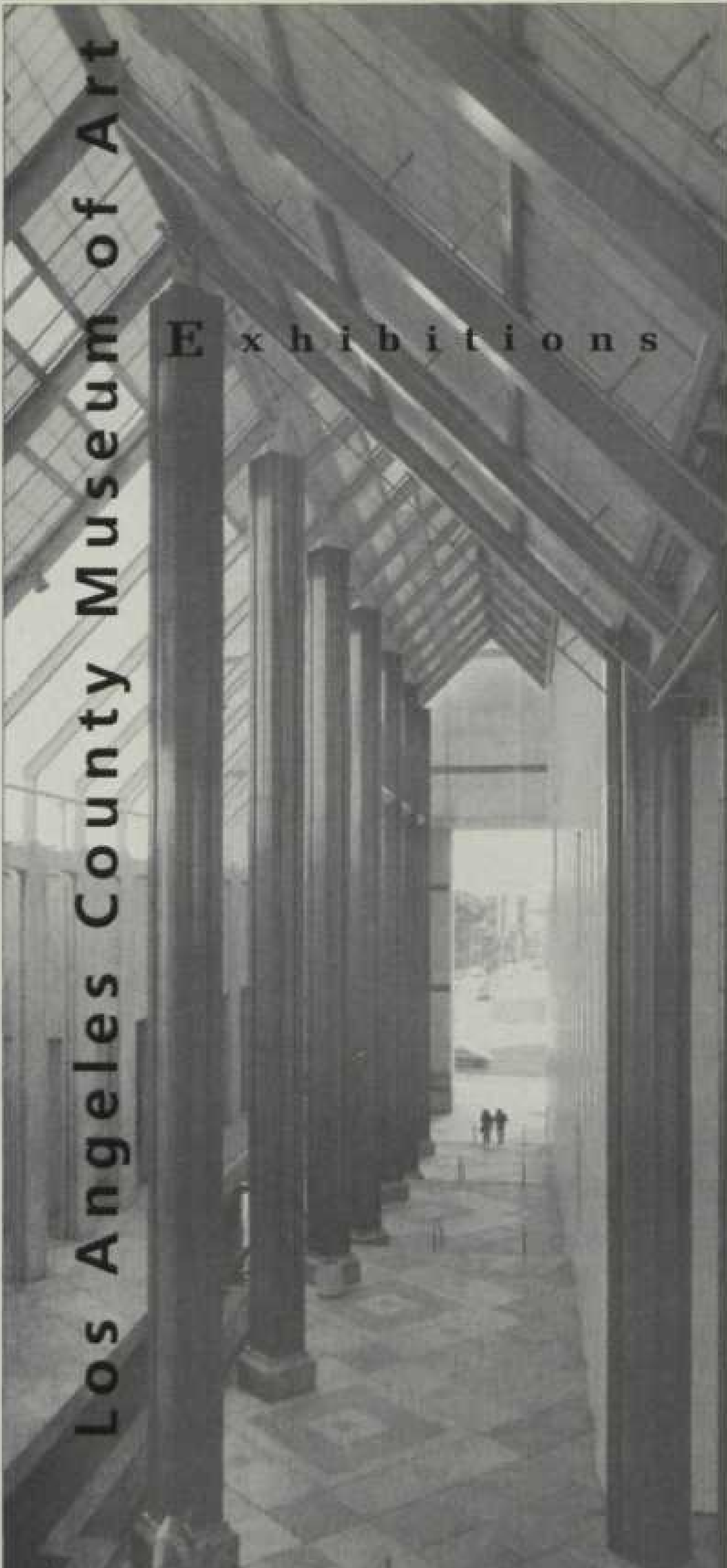

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Affordable Mac Networking

By Steven B. Kaufman

Small wonder that the legendary Silicon Valley start-up—the tiny high-tech venture that goes on to become a multimillion-dollar public company—continues to inspire entrepreneurs worldwide.

Consider Asanté Technologies Inc., a San Jose, Calif., maker of computer networking products. The company was started in a corner of a warehouse by Jeff Lin and Wilson Wong. The founders' aim? To become one of the nation's leading computer networking companies and to make computer networking easy and affordable. "The technology is complicated, but we go out of our way to make products that will not intimidate people," Wong says.

Asanté was named by President Clinton as national minority manufacturer of the year for 1993. The firm went public last December on the strength of fiscal 1993 revenues of $67.3 million. As recently as 1989, its first full year, Asanté had sales of $94,000.

Lin, 43, a native of Taiwan, and Wong, 43, who is from Hong Kong, entered the right market at the right time. The networking, or linking, of Apple Macintosh computers enables the machines to share files electronically and use the same peripherals, such as printers. Until recently, Lin and Wong had relatively little competition as the computer industry focused on networking IBM-compatible personal computers.

Now, as the Macintosh has become more commonly used in big companies, rivals are jumping into the Macintosh networking fray. But Asanté dominates the market, with customers like General Electric, American Airlines, and Walt Disney Co.

Deft timing is hardly the company's only strength. Although far more competitors now challenge Asanté, Wall Street analysts believe Asanté will continue to grow briskly because it keeps rolling out new, improved, and more complex products at an unusually rapid pace. Some of the new products include "hubs"—computers that monitor and control bigger networks—and accompanying network management software. Asanté has also started making "bridges," which link one network of computers to another network in a different location.

The two founders complement each other: Wong is a strategic thinker. It was his idea, for example, to supplement the company's direct-sales efforts early by distributing wares through computer-product distribution companies. Lin, meanwhile, is a hard-charging, day-to-day manager intent on motivating employees.

The company co-chairmen are savvy workaholics who go to great lengths to keep their 180 employees happy and thus highly productive. Everybody at Asanté receives stock options, for example, and those who have to work late can have catered meals delivered to their desks.

PHOTO: ©ROBERT HOLMGREN

Deft timing *enabled Wilson Wong, left, and Jeff Lin to take their computer networking company public in just four years.*

Asanté watchers attribute the partners' success to their focus. At some point, says Kevin Compton, a venture capitalist at Kleiner Perkins Caufield & Byers, in Menlo Park, Calif., most Silicon Valley entrepreneurs take their eye off the ball, either because they lose their passion for their original vision or because they become nervous as the business and payroll expand and they realize they have become responsible for far more people than themselves. To trim risk, Compton says, entrepreneurs begin thinking about diversification early.

"That is not how you win," Compton says. "You win by maintaining a maniacal focus on your original vision. Jeff and Wilson succeed because they regularly hone their focus rather than soften it."

Lin and Wong had much in common before they met at Mountain View (Calif.) Chinese Christian Church in 1983. Both were electrical engineers who had immigrated to California before they were 30 and had worked at big companies. They wound up working together at a now-defunct networking company in Mountain View. They left to form Asanté, which means "good health" in French. The name was chosen because it begins with the letter "A," placing it near the front of catalog listings.

When the two men started Asanté in a 100-square-foot warehouse parcel in nearby Sunnyvale, they kept sleeping bags there. At times, they worked 24 hours at a stretch, showered and took a short nap, then put in 12 more hours. Now they spend the same long hours in a modern, 90,000-square-foot facility.

Lin and Wong recently brought in Ralph Dormitzer, formerly of Digital Equipment Corp., as president and chief executive. The two are counting on his deeper management experience to help take their company to annual sales of $100 million and beyond. And nobody seems to quibble about the company's prospects of doing that.

"These guys have proven that if you focus intensely enough, you can successfully compete against much larger companies," says Fred Ziegel, a partner at Punk, Ziegel & Knoell, one of the underwriters that took Asanté public. "Apple Computer used to be No. 1 in their market." Now, he says, Apple does only half as much networking business as Asanté does. NB

Steven B. Kaufman is a free-lance writer in San Jose, Calif.

COVER STORY

Welfare Reform Could Work

By John S. DeMott

If effective welfare reform finally comes to America, it will likely reflect what is already happening in small businesses like MP Plumbing in Clackamas County, Ore., and Ashland Electric in Ashland, Ky.

In Clackamas County, Jon Egge is making arrangements to hire and train a welfare recipient under Oregon's new "Jobs Plus" program, which is being implemented in six counties to enable individuals who rely on public relief to earn a paycheck instead.

And in Kentucky, Ralph Sturgill gave Susan Ison a job at his wholesale electric-supply company even though she had little significant employment experience and had been on welfare for six years.

As the national debate on reforming the nation's increasingly costly and increasingly ineffective welfare system focuses more and more on moving welfare recipients into jobs, advocates of that approach will be looking for cooperative and committed employers like Egge and Sturgill as well as aid recipients like Susan Ison.

While welfare-to-work programs have been tried without significant success in the past, there is much greater pressure behind current efforts. Lawmakers at all levels of government are responding to public demands that welfare recipients be required to take more responsibility for ending, or at least easing, their dependence on public support.

The demand for such change is being driven by a variety of factors—some that have been associated with America's welfare system since its creation in the present form 60 years ago and some that have occurred only recently.

The present welfare system, established with strong public and political support in the Depression of the 1930s, was created to provide temporary assistance to individuals until they found jobs or other sources of support. Over time,

Plumbing contractor *Jon Egge will hire a person from the welfare rolls in Oregon's Clackamas County as part of the state's Jobs Plus program.*

The Paycheck Solution

Small business's job-creating ability might be the key to ending, or at least easing, recipients' dependence on public support.

however, public sentiment turned negative as it became evident that welfare had become a way of life for some families, with one generation succeeding another on the rolls. Recurring exposés of fraud have contributed to the growing opposition.

In more recent years, the availability of welfare has come under even heavier attack as births to unwed teenagers have increased sharply. That development is a major factor in the debate because many of the teenagers, lacking skills needed for even entry-level jobs, are unable to support their children.

The General Accounting Office, a congressional agency that monitors federal programs, reports the number of unmarried mothers on welfare rose from 380,000 in 1976 to more than 1.5 million in 1992.

Says Robert Rector, a senior analyst at the Heritage Foundation, in Washington, D.C.: "The current welfare system bribes individuals into behavior—such as not marrying, and having children out of wedlock—which is self-defeating to the individual, a tragic handicap for children, and, because it contributes to every other social pathology, is increasingly a threat to society."

Rep. Gary A. Franks of Connecticut, a black conservative Republican, calls the welfare system the "20th century version of slavery" for its failure to help recipients gain self-sufficiency.

Increasingly, the view that the welfare system has failed both those who finance it and those supported by it is shared by liberals who were long its strongest proponents. Health and Human Services Secretary Donna Shalala says more and more Americans are seeing "an unfairness" in the difference between "those who get up in the morning and go to work at entry-level jobs and those who stay on the welfare system."

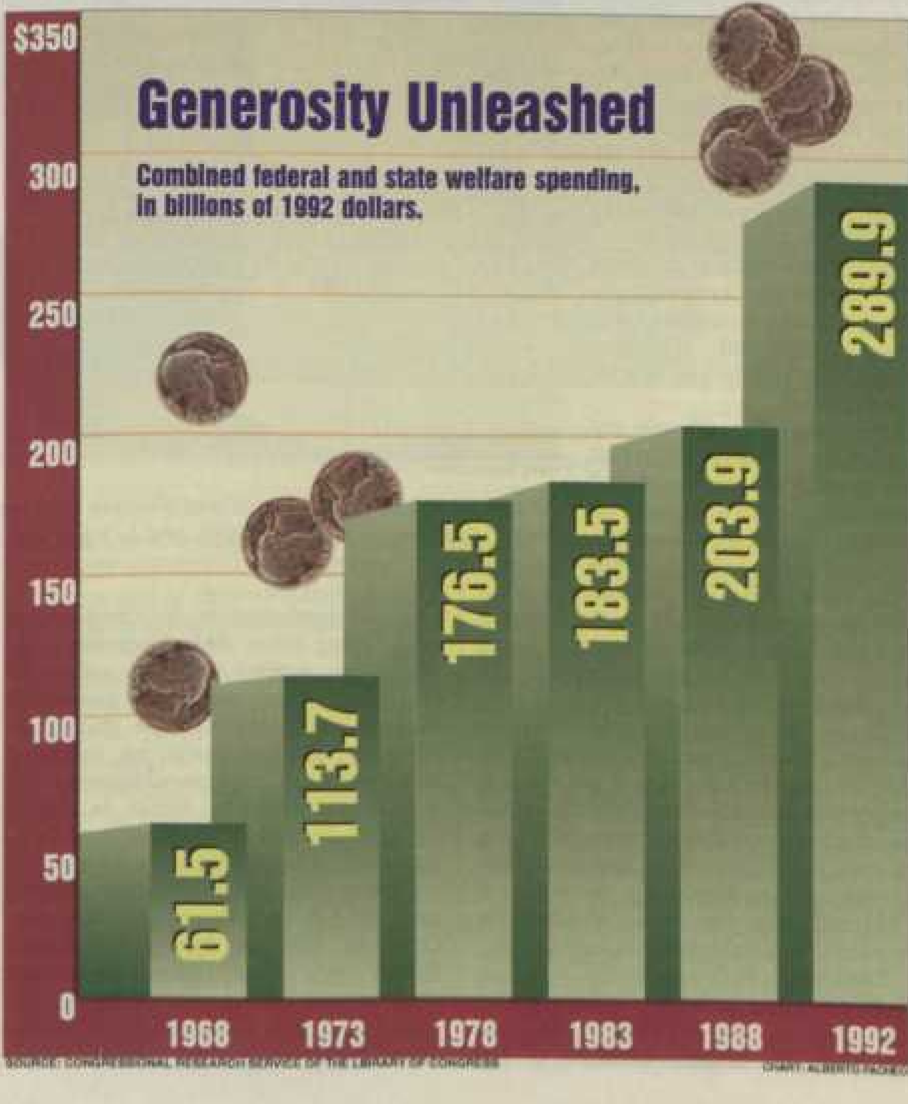
Another factor contributing to taxpayer concern is the extent to which welfare has grown despite spirited attempts to shrink the need for it, such as President Johnson's War on Poverty in the 1960s.

David Ellwood, an assistant secretary of health and human services, decries what America has now as "a welfare system that no one supports. It does not reflect the basic values. It really doesn't reinforce work or family or provide opportunities."

Mary Jo Bane, a former New York State social services commissioner who now is at the Department of Health and Human Services (HHS) as assistant secretary for children and families, told *Nation's Business*: "The welfare system doesn't help recipients move into the labor market. It's in the wrong business. The welfare system is in the business of writing checks and filling out forms. It's not in the business of getting people to work."

The welfare "system" is actually a complex of programs providing cash payments, subsidized food, medical care, housing, education, training, and a range of social services; and the costs for all of the programs are skyrocketing. (See the chart below.)

Current reform efforts, however, cen-



SOURCE: CONGRESSIONAL RESEARCH SERVICE OF THE LIBRARY OF CONGRESS CHART: ALBERTO PACHECO

ter on the core program, Aid to Families with Dependent Children (AFDC), which was originally designed to provide temporary assistance to widowed mothers. AFDC has become the focal point of complaints of generational dependency, taxpayer subsidy of illegitimacy, and failure to impose the discipline needed to end dependency.

During his presidential campaign, Bill Clinton tapped public resentment over those trends when he pledged to "end welfare as we know it." Within his administration there has been debate over what would constitute genuine welfare reform. Recently, President Clinton presented a reform plan, announcing in terms reminiscent of the original concept: "Welfare should be a steppingstone, not a way of life."

The key proposal would set a two-year limit on benefits. Recipients would then have to take jobs in the private sector, or, if unable to do so, in public employment. In another major initiative, the president said, efforts to collect child-support payments would be intensified.

By the end of the decade, Clinton claimed, a million people would be off welfare, and 873,000 more would be in time-limited school or training programs leading to work. He also said federal child-support collections would rise to $20 billion from $9 billion if his proposed reforms are passed by Congress and enacted.

The president's plan, while not specifically proposing to cap payments to mothers who have additional children, wouldn't stand in the way of such limits.

But many Republicans and some Democrats complain that the president's plan wouldn't do enough to move people from welfare to work. For one thing, it would apply only to people born after 1971. The administration says that cutoff point would put the plan's concentration on the young adults who constitute the majority of individuals on welfare.

The critics also say that by 2000, the program actually could cost far more than current programs because of the increase in government-subsidized jobs that would be required for recipients who would have to work but who could not find jobs in the private sector. And many members of Congress want the denial of funds for more children to be made federal policy.

The cost of the five-year plan—primarily to pay wages to those in public-service jobs—has been pegged at $9.3 billion, far less than the original estimate of the Clinton initiative. The president proposes financing the cost by cutting back other social programs.

Many other reform measures have been introduced in the current session by various coalitions and individual members of Congress. Nearly all would limit stays on welfare.

The administration's welfare-reform plan is not scheduled for action in Congress this year. Indications are that the battle over health-care reform will take up most of the remaining months of this congressional session and that lawmakers will have neither the time nor the inclination to embark on another highly divisive issue before the November elections.

PHOTO: SAM CALLAWAY

Off welfare and on the job *at Ashland Electric, in Kentucky, invoicing clerk Susan Ison is "doing great," says owner Ralph Sturgill, and he's sure she'll reach her goal of moving to accounting.*

As developments in Oregon and many other states indicate, however, welfare reform is not awaiting the outcome of any protracted congressional debate. Most states are pursuing their own solutions, including welfare-to-work programs, steps to discourage increases in births to unwed welfare recipients, and reduction of fraud and other excesses that drive up costs.

Oregon is one of some 30 states seeking ways to deal with the welfare problem. Colorado, Georgia, Illinois, Oklahoma, Pennsylvania, South Dakota, Texas, and Utah, among others, are taking on the most intractable problem of welfare reform—the prospect that welfare recipients who take jobs will have less income than they had when supported by public funds. Taxes, work-related expenses, and loss of such benefits as medical care and food stamps often have the effect of reducing wages to levels where the new worker finds little economic advantage from a paycheck.

To ease the transition from welfare to work, those states allow or will allow welfare recipients to continue receiving some benefits in addition to their wages. Florida, Vermont, and Virginia actually increase welfare assistance to households with two parents in an effort to keep families together.

Iowa and Missouri are conducting demonstration projects that put time limits on AFDC benefits but do so on a case-by-case basis, not through an overall deadline. One of the welfare bills pending in Congress is based on those projects.

Other government actions are more direct. Massachusetts Gov. William Weld is proposing to force welfare recipients into jobs after just 60 days. In New York City, Mayor Rudolph Giuliani has suggested putting 220,000 welfare recipients to work cleaning parks and filling potholes.

California has cut welfare benefits across the board, and, on another front, the state is vigorously fighting welfare fraud by using an elaborate fingerprint-

Should The System Be Abolished?

No one in America has stirred up the welfare debate more than Charles Murray.

A Bradley Fellow at the conservative American Enterprise Institute, a public-policy research organization in Washington, D.C., Murray sent tremors through the welfare strata last October with an op-ed piece in *The Wall Street Journal*. In it, he said the best way to solve America's welfare problem is to close off a large part of the welfare infrastructure—Aid to Families with Dependent Children (AFDC) and food stamps—to single mothers. His principal exception would be Medicaid, he said, because "all children [should] have medical coverage."

Murray, formerly a researcher at the Manhattan Institute, maintains that putting welfare mothers or fathers to work, essentially what welfare reformers want to do now, isn't the key to the problem. That's merely a "replay" of everything that's been tried for the past 20 years and a "triumph of hope over experience," he told *Nation's Business*.

Instead, he says, there should be decisive moves to reduce the number of children born out of wedlock. The current welfare system, by paying mothers more for each child and denying benefits to families with two parents, Murray argues, is a powerful force driving illegitimacy.

Out-of-wedlock births—not crime or drugs or poverty or illiteracy or homelessness—constitute "the single most important social problem of our time," Murray contends. Illegitimacy has produced a huge "underclass" in the black community and is within a whisker of doing the same among whites, he says, and this trend is creating the very dynamics that produce growing numbers of welfare recipients.

Murray argues that if the welfare safety net were at least partly removed, women on welfare would be discouraged from having children, and people around those women—mothers, sisters, brothers, boyfriends—would join in discouraging them from having children.

Welfare women who still choose to give birth, Murray says, could do the old-fashioned thing and marry, seek charity, or put the children up for adoption in orphanages funded and run by government—a chilling thought to many politicians and welfare officials.

Most welfare reformers, even conservative ones, generally dismiss Murray's approach. They question whether benefits really encourage women to have more children. For one thing, they say, women receive about 40 percent less in inflation-adjusted dollars in AFDC benefits—down from $644 in 1970 to $388 in 1992—and thus benefits alone can't be the sole driving force behind the increase in out-of-wedlock births.

Another argument, says Peggy Bald, director of the women's center at Florida Community College in Jacksonville, is that "you're not dealing with a group that has the energy to plan. They are planning their next meal. You live day to day to day. They're not planning their next child. They'll get pregnant without thinking about it."

President Clinton and his aides acknowledge that the current welfare system does not curb illegitimate births—and that's one of its weaknesses. Says David Ellwood, an assistant secretary of health and human services: "You should not have a child until you are in a position to support and nurture that child."

Clinton said of Murray's *Journal* article: "I think his analysis is essentially correct."

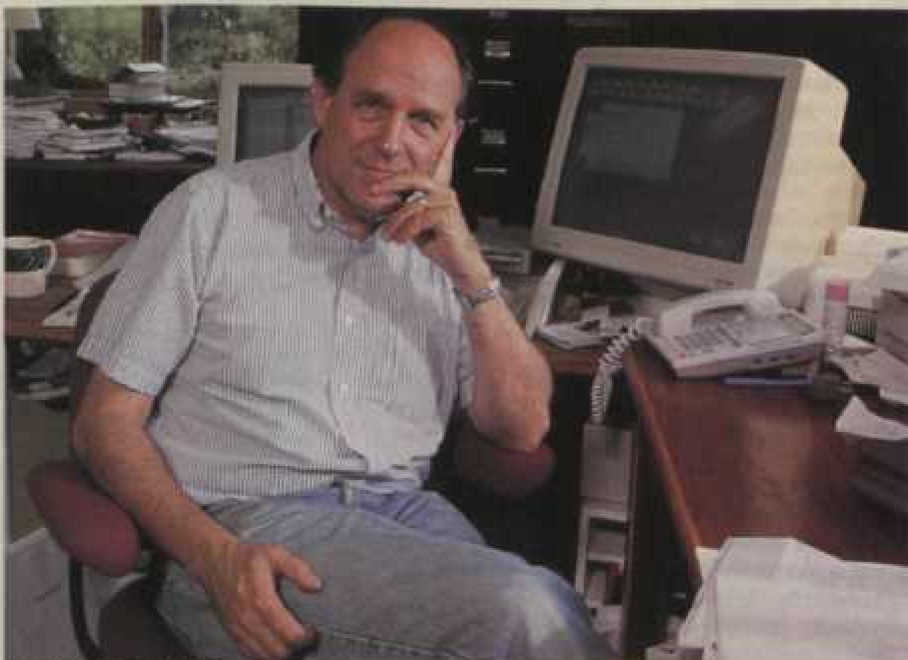
Health and Human Services official Mary Jo Bane, assistant secretary for children and families, gingerly credits Murray, saying he has "identified and brought attention to a very important problem" of high numbers of illegitimate births, but she says "abandoning" children, which she suggests Murray seems to favor, is not an answer.

New York University Professor Larry Mead, a friend of Murray and author of several books on welfare, says Murray's ideas won't work. Says Mead of the typical welfare recipient: "These are people who are looking for direction. That would actually be popular. And it would lead to more-constructive change than if you just throw them off welfare."

Labor Secretary Robert Reich agrees, saying that "at the core of the Clinton program is work, which gives structure and meaning to people's lives. Our goal is to shift the welfare system away from income supports and toward jobs."

Chuck Hobbs, also a friend of Murray and a Washington-based consultant to several state welfare-reform projects, says "the answer" is work: "It's a mistake for conservatives to start heading away from the work notion, which is what Charles is doing. Now he's into making proper citizens out of these kids who are having too many babies out of wedlock."

Murray says he isn't in the business of recommending "politically practicable policies. I'm in the business of saying this is what needs to be done."



Conservative policy analyst *Charles Murray contends that most of the current welfare system should be scrapped; he says it leads to illegitimacy and undermines society.*

Murray's notions seem to have struck a chord. Barely known outside intellectual circles before his *Journal* article—though he argued similarly in his book *Losing Ground* a decade ago— Murray now is in demand on the lecture circuit and on television talk shows. He admits his plan and others calling for abolition of welfare stand little chance of being passed into law anytime soon. But he says that "something quite radical is going to happen within the next decade, because the dimensions of this problem are going to become so large that what is already concern is going to be something approaching hysteria."

ing system. Maryland has reduced payments to mothers who fail to get their children immunized. Ohio has limited cash payments to women who have additional children on welfare, a step adopted earlier by two states that have been among the most aggressive in seeking welfare reforms: New Jersey and Wisconsin.

It was action in those states, in fact, that precipitated interest in the possibilities of change without waiting for the federal government to take the lead.

New Jersey's Family Development Program, which gained national attention because of its sponsorship by a liberal Democrat, became law in January 1992, initially affecting eight test counties. Drafted largely by Democratic Assemblyman Wayne Bryant, it denies to women who have additional babies while on welfare the $64-a-month increase in benefits that was available under previous law.

Critics, who include state welfare officials, say that denying the $64 monthly increase—while pioneering—diverts attention from more important goals: keeping families together and preparing recipients for the world of work.

The new New Jersey program does not ignore the added children, however. Women continue to receive additional food stamps and Medicaid for any newborn. Also, while welfare mothers get less money for extra children, they may work and earn up to 50 percent of welfare benefits without losing other benefits.

In addition, New Jersey's reforms eliminated the provision for a 30 percent loss in benefits for married couples and allowed continuation of benefits to a child even if the mother marries someone who is not the child's father.

Welfare recipients whose children are at least 2 years old also are required to participate in training and education, to the point of encouraging each family member to earn a high-school diploma or its equivalent.

The program is so new that officials don't have enough information for a thorough evaluation. While there was a 10 percent decrease in births to women on welfare during one period, supporters and other experts aren't attributing that entirely to the loss of the $64 benefit.

Meanwhile, lawyers for both the American Civil Liberties Union and the National Organization for Women are suing to overturn the denial of additional benefits to welfare mothers. The lawsuits argue that withholding benefits is an unconstitutional, "big brotherly" attempt at population control.

Wisconsin's welfare-reform plan was the first major effort to receive the required federal waivers, and it now is regarded by welfare professionals as one of the country's more advanced reform projects.

Wisconsin's program encompasses efforts such as "Learnfare," which requires children of welfare recipients to stay in school or lose benefits, and the "parental and family responsibility initiative," which started in July in four test counties. Under this initiative, benefits are capped for welfare mothers who have additional children. But it also encourages young parents to marry by eliminating the requirement that one member of a low-income married couple have a work history to be eligible for welfare.

The one portion of Wisconsin's overall program that is not already under way is the "work-not-welfare" plan, which is to begin in January in Fond du Lac and Pierce counties. Under it, recipients will get welfare for no longer than two years, and work will be required in exchange for benefits, which are reduced in proportion to salaries. Child care is provided, and the business community is encouraged to provide jobs.

The point of it all, says Gerald Whitburn, Wisconsin's secretary of health and social services, is that "we've begun to reintroduce the stigma that nonwork is not OK." Results have been encouraging. The state's welfare caseload dropped from 95,158 in 1987 to 77,497 as of last December, lowering it from the eighth-largest to the 31st-largest in the United States.

The reform effort also includes an aggressive program to collect child-support payments from noncustodial parents. This initiative doubled such collections, to more than $300 million, from 1987 to 1993.

While there are disagreements over methods, there is consensus that those who receive welfare should have to work for their welfare money—in welfare-work jobs.

"There's a lot of support" in polls and focus groups, says Bane, the HHS assistant secretary, "for moving the welfare system toward a more work-oriented system."

Most of the jobs that proponents of change are talking about will necessarily come from the economic sector that generates most new jobs—small businesses. Firms providing such opportunities can make a contribution that has eluded welfare bureaucracies, namely, helping former welfare recipients develop positive attitudes toward work.

Says Bill Early, chairman of Oregon's Jobs Plus Advisory Board, which is helping to recruit employers for the Jobs Plus program: "We expect the majority of the jobs to come from small businesses. One thing we ask these employers to do is to be willing to recruit their peers to participate in the program." The program is scheduled to begin this fall. In Lincoln County alone, he says, about 45 jobs have been promised by small employers.

Egge of MP Plumbing takes it a step further, saying it's business's responsibility to help make welfare-to-work achieve its goals. "Businesses have done a pretty good job of complaining and identifying the problem," he says. "But the real issue

Growth Of A Welfare Program

The oldest and sturdiest of federal welfare programs is known as Aid to Families with Dependent Children (AFDC). Set up in the 1930s under the Social Security Act, AFDC provides cash assistance to needy children and their mothers or caretaker relatives, provided that a parent is "absent from home continuously, incapacitated, dead or unemployed." States also provide a share of benefits.

About 4 million families, or some 15 million people, receive AFDC. In all cases, states determine if a family is eligible by setting monthly income limits ranging from $324 in New Mexico to $1,513 in New Hampshire; three-person families with incomes below those limits become eligible for AFDC. AFDC families also may qualify for food stamps, Medicaid, and free school meals.

The chart shows the growth of total federal and state AFDC payments—not adjusted for inflation—and the number of recipients.

If inflation is taken into account, according to the American Public Welfare Association, the buying power of AFDC benefits is actually about 40 percent less than it was a generation ago.

	Total Payments (In billions of dollars, not adjusted for inflation)	Total Recipients
1973	$ 7.0	10,738,000
1978	10.6	10,387,000
1983	13.6	10,569,000
1988	16.7	10,915,000
1993	23.0	14,046,000

SOURCE: HOUSE WAYS AND MEANS COMMITTEE

CHART: ALBERTO PACHECO

is, are businesses ready to participate in the solution? If they don't, they are going to lose the right to point the finger."

Workers hired under the program in which Egge's company is participating will be paid the state minimum wage of $4.75 an hour (50 cents above the U.S. minimum), and employers will be reimbursed from funds that ordinarily would go to food stamps or cash welfare payments. The wage is on top of whatever other aid the persons are receiving through Medicaid, housing assistance, and child-care allowances.

Employers will also be reimbursed for their share of Social Security and Medicare taxes and for the value of workers' compensation insurance represented by the employee.

To launch the welfare-to-work experiment at MP Plumbing and about 50 other small businesses, Oregon had to obtain a dozen waivers from federal rules governing the use of welfare money. Egge says the arrangement "gives business a chance to develop potential in a person" and at the same time "to essentially get a good solid employee at very minimal cost."

As proposals to force welfare recipients to work for their benefits are designed to break that pattern, the evolution of the Oregon plan is being watched as a possible model.

The Jobs Plus program originated not in government but in the private sector, as the brainchild of Richard Wendt, chairman and CEO of Jeld-Wen, a manufacturer of windows, doors, and millwork. Many of Wendt's executives, including Senior Vice President Bill Early, are volunteering their time to Jobs Plus, kneading it into Oregon's small-business mix.

Jeld-Wen itself will not be hiring Jobs Plus workers, at least initially, because it has no plants in the six-county test area. That suits Wendt and Early just fine. Organized labor and other opponents argued, without merit in Early's view, that the company's primary interest was in providing itself and other employers with "free labor."

Small businesses are being canvassed by other small businesses through Jobs Plus "implementation councils" in the six counties to hire welfare-to-work candidates. Each council consists of five business representatives and two current or former welfare recipients.

There is a kind of United Way fund-raising spirit in the effort, says Bob Kingzett, a Jeld-Wen public-relations executive, who is recruiting employers, with "team captains" being asked to raise five jobs apiece.

The subject has even come up at meetings of the 600-member North Clackamas Chamber of Commerce and the Clackamas Rotary Club. Says Egge: "Rotary is a service club, and a lot of the things that they do are angled toward making people self-sufficient. So it really is a good match for them."

After the first six months, if the employer chooses to keep the employee on the payroll as a temporary, an employee must be given one day off a week to look for other work. At the end of nine months, the employee is either given a job or let go.

The entire effort rides on good faith between the employer and the employee. An employee who isn't hired, says Jim Neely, assistant administrator of Oregon's adult and family service division, nevertheless gets "self-confidence and work experience to help ... in getting another job." And employers will be discouraged from exploiting the program. Says Early: "If it appears that they're just using the free labor, then they can be disqualified."

Jobs must be "expansion" jobs, not replacements for lost ones. And they can't be make-work; they must be authentic jobs for which the hired individual must be trained by an on-the-job mentor.

That's the kind of job that Susan Ison took with Ashland Electric in Kentucky. She is an invoicing clerk and takes home more pay than she received in welfare payments for herself and her 7-year-old daughter—$140 a week, compared with $196 a month on welfare. In addition, she now has company-paid health-care benefits and participates in the firm's profit-sharing plan. With a sister to assist in caring for her daughter, Ison is happy with the arrangement and wants to move up to accounting, she says. "I'm trying to work my way there. I'm trying awful hard. I'm prouder. I feel better about myself."

Though she finished high school and has taken some community college courses, Ison, 29, never was seriously employed until now, and she received benefits for six years through AFDC. She was interviewed by Ashland owner Ralph Sturgill after being referred by the state's employment services office. "She's been here 10 weeks," Sturgill says, "and she's just doing great. She loves her work. I'm totally satisfied." He has no doubt that Ison will, in time, achieve her goal.

High-level Clinton administration officials concur that small businesses like Ashland Electric will play an important role in the revamping of the welfare system. Says Bane of HHS: "Small businesses, because they are settings in which a lot of entry-level workers enter the labor market, are in fact going to be crucial."

The administration's admittedly lofty goal with its welfare-reform plan, says Labor Secretary Robert Reich, "is getting all able-bodied Americans to work, building the skills of low-wage workers, cementing their links to the mainstream economy, and equipping them for higher-wage work."

While President Clinton and the federal welfare bureaucracy, as well as the states, work on reforming the present system, a serious national policy debate has begun over the most aggressive reform policy of all: eliminating welfare.

That proposal was offered by the American Enterprise Institute's Charles Murray last October in *The Wall Street Journal* and has since influenced discussion of welfare reform substantially. (See "Should The System Be Abolished?" on Page 21.) For example, former Housing

PHOTO: T. MICHAEL KEZA

"The welfare system doesn't help recipients move into the labor market. It's in the wrong business," says Health and Human Services' Mary Jo Bane.

and Urban Development Secretary Jack Kemp and former Education Secretary William Bennett, both considered potential candidates for the Republican presidential nomination in 1996, have proposed eliminating federal welfare payments to women younger than 21.

Standing against such unconventional proposals is Sen. Daniel Patrick Moynihan, D-N.Y., chairman of the Senate Finance Committee, which would vote on any reform legislation.

Concerning the Clinton plan, Moynihan has made his opinion known: In June, he introduced the proposal in the Senate as the Federal Work and Responsibility Act, saying that it contained "bold changes."

Meanwhile, demands upon the system keep intensifying, even as federal and state social-service budgets shrink. During the 1980s, the General Accounting Office said in a jarring report in April, the number of children living in poverty in America increased 26 percent, to 2.3 million, which raises the prospect that many of them might still be on welfare as adults.

In a striking and sobering account earlier this year, *The Boston Globe* reported the saga of Eulalia Rivera, who came from Puerto Rico to Dorchester near Boston in 1968 and raised 17 children on welfare. Two live out of the country, one is dead; the remaining 14 adults are on welfare, as are their 74 children and those children's own 15 children. Altogether, Eulalia Rivera currently has 103 descendants in the welfare system.

Accounts like this have the public demanding genuine welfare reform based on putting people to work.

Welfare-to-work programs have met with mixed results, however. In California's Riverside County, a program called GAIN has moved people from welfare to work, but the relapse rate back to welfare is high, at 40 percent.

The Job Corps, which turned 30 in May, is currently training about 46,000 young people 16 to 24, many of them from welfare rolls, in 109 Job Corps Centers. At the Potomac Job Corps Center, near Washington, D.C., John Peoples, the director, says, "Many of the students we deal with learn a skill and never have to think about welfare."

The Job Corps "is expensive," says Labor Secretary Reich, "but worth it. Benefits to the public are well beyond its cost," and the administration now wants $117 million more for the program in 1995 than the amount appropriated this year, an increase of 11 percent.

While much of the welfare-reform debate understandably centers on the failure of existing programs, some programs have been working. JOBS, a federal program to train welfare recipients for jobs, is a success, albeit a modest one, the organization says. It notes there are 500,000 participants each month, with 40 percent in education activities.

Optimism that welfare-to-work programs will succeed through coercion or incentives—or both—is not universal. Many welfare recipients, the doubters say, are not only untrained but also untrainable. And, they add, implanting an ability to work cooperatively with others can be as difficult as teaching specific job skills.

The problems were spotlighted in a survey made by Manpower Demonstration Research Corp., in New York City, of a pilot program that provided job training, education, family planning, counseling, and job placement to unwed mothers in their teens or early 20s. More than 82 percent were on welfare 18 months after entering the program, and 57 percent became pregnant. Those numbers were about the same for a control group of unwed mothers who had not participated in the federally funded project.

Despite such discouraging evidence, future welfare-reform efforts will be based on activities, ranging from training to a cutoff in benefits, designed to put recipients into jobs. Health and Human Services Secretary Donna Shalala recognizes that it won't be easy: "All of us enter into this discussion with tremendous humility. It's very important that we don't overpromise."

But the effort must be made. Says Ellwood, the Health and Human Services assistant secretary: "We have got to find ways to make the system work. To simply say the problem is too hard, too complicated, or too risky is to simply abandon another generation of people." NB

PHOTO: T. MICHAEL KEZA

Trainees *at the Potomac Job Corps Center, near Washington, D.C., polish their skills. The center is one of 109 such organizations nationwide preparing about 46,000 young people for the work force.*

To order a reprint of this story, see Page 68.

MANAGING

Ferreting Out Con Artists

Small-business owners can be particularly vulnerable to scams. Here is how to protect your company from cheats.

By Hal Morris

Scam artists hit a wall when they call on Joy Chittim, president of Flying Circle Bags, a luggage manufacturer in Boerne, Texas. Name a deceptive sales pitch—from an office-supply "deal" to a phony solicitation—and she has probably heard of it.

Especially vulnerable are smaller companies, whose owners sometimes lack the time and resources to detect potential fraud. Swindlers "seem to target small businesses," says Chittim, whose 40-employee company makes utility, camping, and sport luggage. "With a small business, it's easy to get to the owner, the one controlling purse strings."

There is no way of knowing for sure the magnitude of the con artists' illegal activities, but authorities are sure deceptive schemes cost companies of all sizes billions. Office-supply scams alone account for annual losses of at least $50 million, and probably much more, according to the National Office Products Association, a group based in Alexandria, Va.

Hal Morris is a free-lance writer in Los Angeles.

Chittim's latest brush with a scam involved a "business development consultant" with questionable credentials. The consultant appeared in person, flashed his business card, and promptly took it back, Chittim says. "It seemed so suspicious," she recalls.

He proposed that he be allowed to look at the company's balance sheet, evaluate each employee's job, and tell Chittim what she should do to improve the company's bottom line. (Chittim maintains that she needs little help: Sales are up 25 percent from a year ago, and the company is hiring new employees.)

Nevertheless, Chittim played along with the consultant and discovered he had no experience in manufacturing and lacked knowledge of her company's specialty. He shrugged off a request for references, and he also sought, but never received, a $300 deposit for future services.

Chittim says she hasn't heard from him since his visit; her probing apparently discouraged him.

Dishonest peddlers of management advice wouldn't get far if, like Chittim, businesses insisted on references and checked qualifications.

Here are some other scams that are frequently used on small companies:

PHOTO: ©BOB DAEMMRICH

"With a small business, *it's easy to get to the owner, the one controlling purse strings," says Joy Chittim, president of Flying Circle Bags, a luggage manufacturer in Boerne, Texas.*

Office Supply Rip-Offs

The biggest con game aimed especially at small businesses involves office supplies.

In one instance, an unordered box of printer ribbons arrived at Images of the Past Inc., in Hollywood, Calif. A bill for $35 appeared a week later, says Delmar Watson, president of the company, which frames vintage photos with related news clippings. "Whether on the phone or in person, our policy is not to accept solicitations and, in this case, not pay for an unordered delivery," Watson says. "Two months ago we told the ribbons' sender to pick up the box. It's still sitting here."

Many states allow unsolicited merchandise to be kept without payment. Local and state consumer-affairs agencies can help you understand the rules.

Office-supply scams of all types are "running full blast," says Bob Hampton, president of the Wisconsin Better Business Bureau, located in Milwaukee. Deception that involves copy-machine toner is especially prevalent. Hampton tells of a real-estate office that accepted an unordered box of toner for $400 (actually worth about $70, he figures) and soon found itself with two more boxes and a bill for $863. The final cost could go even higher, Hampton says, because inferior toner used in rip-offs often gums up equipment, requiring a service call.

Deceptive telemarketers can often obtain a company's copier type and model by calling an unsuspecting employee and convincing the person that the caller represents the company's regular supplier and that information on the machines has somehow been misplaced.

"Toner fraud is a widespread problem, costing millions of dollars a year," according to Shirley L. Rooker, president of Call for Action Inc., a private, nonprofit, consumer-action group in Washington, D.C. She observed firsthand how toner tricksters work when she answered an

office telephone and spoke with "Leon," who asked "if a three-month supply of cartridges would be enough."

That was a loaded question, says Rooker, whose group has expanded to assist small-business owners in addition to individual consumers. "If I said yes, that would be taken as an order," she says. "Then I asked Leon—who wouldn't give his last name—what company he represented. He gave me a name but not a telephone number. That is against the law. Under the Telephone Consumer Protection Act, a telemarketer is supposed to provide company name and telephone number. When I persisted, he hung up."

ADA Wizards

Since the Americans with Disabilities Act took effect in July 1992, an industry has sprung up to help businesses make jobs and public facilities more accessible to the disabled. While most consultants in this new field can be helpful, a small minority take unfair advantage of a company's desire to comply with the law.

An unscrupulous ADA consultant might try to "charge thousands of dollars to lower counters or open up doorways when there are less-expensive ways to redo infrastructure of a place of business to accommodate the law," Getty says. "Some 'consultants' conduct scare seminars that cost $500, implying that if one doesn't attend, the business may be shut down. Others will claim they are 'ADA-certified' or 'approved.' There is no such certification."

Small businesses, particularly those that had to begin complying with the ADA regulations July 26, 1994, should be wary of scam artists but also recognize that there are legitimate consultants in the field. (See "Disabilities Law's Wider Sweep," in the July issue.)

Phony Directories

Another scam is the fake telephone directory. "It's still big," according to Carrie Getty, vice president for operations at the Better Business Bureau of Metropolitan New York. The problem is, the directories have virtually no distribution. Often, if directories are printed at all, they go only to those who paid to be listed.

The con artists who sell directory listings often use the widely recognized let-your-fingers-do-the-walking logo to add credibility to their enterprise. They can do this because the logo has no trademark protection, says Shirley Rooker of Call for Action. As a result, anyone can use the familiar marking.

Especially vulnerable to directories, she adds, are new businesses eager to advertise to get their names out. "They believe they will be listed in legitimate directories," she says. "But they get hooked on this, spending money—usually $50 to $100—that should be spent on genuine publications." Rooker tells of a businessman who lost $1,200 on a fraudulent directory that was never distributed to real-estate agents as promised.

PHOTO: GRANT BARTHOLOMEW

Delmar Watson *of Images of the Past has been billed for supplies he didn't order.*

Fake Invoices

Deceptive invoices pry money from unsuspecting business owners. Fraud investigators nationwide have thick files on such scams. One favored method is the employment ad invoice. Here's how it works:

A business places a help-wanted ad. Then weeks or several months later, an impostor with no connection to the publication in which the ad appeared sends the circled ad on a tear sheet with an invoice attached. Even though the ad has long been paid for, the incoming phony invoice sometimes elicits the desired response: another payment.

David Fast, a San Diego postal inspector, calculates that it takes only a 7 percent response to a scam for perpetrators to make money. Often these fraudulent notices state in small print: "This is not an invoice. This is a solicitation." But the accompanying ad is conveniently stapled over the message.

Fake invoices can arrive for almost any type of service or office supply. The best way to avoid being taken is to establish and follow strict procedures for purchasing and paying bills.

Fund Raising By Phone

Few businesses have escaped telephone calls asking for contributions. Fund raising by telephone, an offshoot of telemarketing, has become "a big issue," according to Sue Frauens, the acting regional director of the Federal Trade Commission in the Los Angeles area. The fund-raising scams cross state and international boundaries, she adds.

Many callers, claiming to represent police or fire organizations, imply "that small businesses will get special treatment or status with a donation," Frauens says. "Often, a window sticker is offered to indicate support."

Sometimes the message is enhanced with a claim that the donation is tax-deductible because it goes to a charity. A charity must have federal tax status of 501 (c)(3)—a section of the tax code—to permit deductions of contributions to it, says Frauens. Other organizations may falsely claim to be nonprofit, she says.

Authorities recommend that you listen to the bell that goes off in your head when an unknown caller asks you for money, declines to give you references or supply written information, or avoids leaving a telephone number.

Frauens of the Federal Trade Commission offers this bottom-line advice on anything that appears suspicious: "When in doubt, just say no." NB

To order a reprint of this story, see Page 68.

Protect Your Firm

Businesses can check out fund-raisers, consultants, and suspicious deals through local or state agencies, including Better Business Bureaus, state corporations departments, and the state attorney general's office.

Assistance counselors at the National Fraud Information Center, in Washington, D.C., can direct callers to appropriate local or state agencies; call 1-800-876-7060. The center, a nonprofit offshoot of the National Consumers League, also reports scams to a Federal Trade Commission data base.

Call for Action, 3400 Idaho Ave., N.W., Suite 101, Washington, D.C. 20016, offers free brochures on scams and deceptions in English or Spanish for businesses to pass on to employees. Send a self-addressed stamped envelope for a copy of *Scams, Schemes and Deceptive Offers: How Small Businesses Can Survive the Great American Rip-Offs.*

For a list of appropriate publications from the Federal Trade Commission, write to Public Reference, Room 130, FTC, Washington D.C. 20580.

BENEFITS

A Possible Threat To Stock Options

Many small companies see their growth imperiled by a proposed change in accounting rules.

By Michael Barrier

Cheryl Breetwor knows something about employee stock options. Not only does her 10-year-old Sunnyvale, Calif., company, ShareData, offer a stock-option plan to its 40 employees, it also produces software that other companies use to manage their own plans. ShareData's 1,300 customers range in size from "little start-ups," Breetwor says, to such corporate giants as AT&T and Microsoft.

"I think we have a very keen insight into how companies use stock options," she says, and she believes that in most cases, particularly at small, young firms, they're a tremendously effective tool for attracting talent, building employee loyalty, and aligning employees' interests with those of the shareholders.

That's the reason Breetwor is so strongly opposed to a proposed change in accounting rules that could make it much more expensive for small businesses like hers to offer stock options to their employees.

The rule change would require corporations to calculate a charge against earnings for employee stock options as soon as they are granted. (The charge might be spread over several years, if a vesting period was involved.)

Under current rules, so-called fixed stock options—which are granted at a fixed price and for a fixed term, to be exercised when the recipient chooses—are never charged against earnings. Instead, they are disclosed in footnotes to reports on company earnings; they also show up in calculations of how much stockholders' equity will be diluted if the options are exercised.

The rule change was proposed last year by the Financial Accounting Standards Board, a private, seven-member organization based in Norwalk, Conn., that draws up the rules for the accounting profession. These rules are designed to achieve a uniformity that permits meaningful comparisons, so that when someone is buying a company, for example, there is no question what the figures in a financial statement mean.

But FASB's reach extends well beyond the accounting profession: Ordinarily, for example, the Securities and Exchange Commission requires that corporate financial reports be written in accord with FASB's rules so that investors can be sure they are comparing apples with apples.

Only rarely, however, do FASB's operations draw much attention from anyone besides accountants. But the proposed stock-option rule is different: FASB has received 1,500 letters commenting on it since the rule was proposed. "About 900 of them are form letters," says FASB Chairman Dennis R. Beresford, "so they don't really give us much new information. But there have been about 600 substantive letters." FASB also heard from about 60 witnesses in six days of public hearings last March.

The response to the proposed rule has been overwhelmingly negative. It has drawn withering fire from critics—including some in Congress—who claim it is not just bad accounting but bad public policy.

The accounting argument centers on whether it is possible to attach a reasonable value to stock options at the time they are granted. Says George Sollman, president and CEO of Centigram Communications Corp., a San Jose, Calif., telecommunications firm: "The people who seem to think they can do this are the academicians. The people who actually have to do it, the accountants and business people, have thrown up their hands and said, 'You just don't understand.'"

There is widespread agreement that if stock options can be valued accurately, they *should* be charged against earnings. Options can be considered a form of compensation, just like a salary, and, as Beresford points out, accounting rules already require that most transactions involving an equity instrument be charged against earnings. If, for example, a company exchanges some of its stock for a tangible asset like a truck, or for an attorney's services, he says, "no one really questions those being reported as accountable events."

But what is the value, at the time it is granted, of a stock option that an employee might exercise in five or 10 years—or never? (An option most likely would not be exercised if the employee left the company or the stock's price fell below the option price and stayed there.)

If really accurate measurement of an

PHOTO: ELINDA SUE SCOTT

CEO Cheryl Breetwor *(third from right) of ShareData says charging stock options against earnings could discourage use of an effective compensation device.*

option's worth were possible, Breetwor says, "I don't think you would have the hue and cry that you have today."

When FASB proposed the rule change, it suggested that there were mathematical models for valuation of options that could adequately take into account such things as the volatility of the market price of a stock.

Centigram's Sollman, for one, is skeptical. He points out that Centigram's stock has gone through terrific gyrations since the company went public in October 1991, dropping to just a few dollars a share and then rising into the 40s. "Given the roller-coaster ride we've been through," he says, "how do you put a value" on an option to buy Centigram stock?

Last April, FASB brought together 10 experts on valuing stock options—including both academic researchers and investment bankers—who had submitted papers on that subject. "They all thought we could make adjustments," Beresford says, and all but one thought that the adjustments should be in the direction of lowering the value assigned to options.

Measuring options' value "continues to be a significant open issue" as far as FASB is concerned, Beresford says. "It's not so much just using a model that's a problem, but what kind of inputs you use for the model, and what you do with that answer once you've developed it. Some very legitimate questions have been raised."

Depending on the assumptions that govern what goes into a model, he says, "the range of results [i.e., the current value assigned to an option] might be plus or minus 15 or 20 percent, and some people think that's too wide a range."

In other words: If the idea is to improve the accuracy of comparisons between corporations, by not allowing companies to disregard the cost of their stock options, does it really make sense to adopt a rule that not only ends the old distortion but also introduces a new one that may be even worse? "If you start putting in numbers that are unreliable," Sollman says, "you start to taint the entire process."

It's thus conceivable that FASB's proposed rule could die aborning, a victim of the same methodological problems that have doomed previous efforts to attach a value to fixed stock options. "We're not ready to admit that at this point," Beresford says, "but anything is possible."

FASB will not reach a decision on its proposed rule until early next year, after spending more than six months considering possible changes; but even if it ultimately concedes defeat on the valuation issue, it has stirred up larger questions that seem likely to survive much longer.

The most vehement objections to the proposed rule have been raised on public-policy grounds: Stock options are a good thing, the argument runs, and FASB's rule would hobble their use; therefore the rule must go. The strongest opponents of the FASB rule are concentrated in a few industries that are heavy users of stock options, with high-tech electronics and biotechnology foremost among them.

PHOTO: ERICK FREEDMAN—BLACK STAR

Sen. Joseph I. Lieberman, *D-Conn., wants stock options offered to all employees.*

ShareData's Breetwor says that options, by "sharing the upside potential," spawn a culture that is vital to the growth of high-tech firms.

Centigram, which makes voice-messaging equipment that integrates fax, E-mail, and voice-mail, is one such firm. Founded in 1980, it went through what Sollman, the CEO, calls "a long incubation phase" before it started to grow rapidly in 1987. Stock options were "a piece of the puzzle" that helped the company to survive those early years, he says.

Today, the company has about 350 employees, all covered by its stock-option plan. Even now, Sollman says, stock options are a critical tool for bringing new people into Centigram, but if options are "really expensive, so they have a really negative impact on earnings, I'm going to use them very seldom, and only with people at the very highest levels."

It is this aspect of FASB's proposal—the way it would discourage the extension of options to lower-level employees—that particularly riles its opponents. "If a company is growing very rapidly," Sollman says, "and uses stock options widely, that's when the largest hit occurs—which seems kind of nuts."

If the FASB rule had been in place in the past decade or so, Sollman says, some very successful high-tech companies might never have shown a profit. The charges for stock options would have soaked up their profits on paper, he says, even though they were extremely profitable "from the shareholder perspective."

Beresford is not impressed by the argument that small high-tech companies would be hit especially hard by the stock-option rule change: "In effect," he says, "they're saying, 'Don't do this because the expense is going to be large.' To the extent that some of the high-tech companies use options much more frequently in their compensation programs, sure it's going to affect them."

The proposed rule is in fact neutral, Beresford says. "It affects companies that use options more than it affects companies that don't use options, or don't use them nearly as much, but that seems to be an even-handed way of approaching things."

It really isn't FASB's job to consider broad economic consequences, Beresford says, but he is skeptical of many of the claims of dire consequences: "Many of them can't be pinned down, and in many cases probably just aren't even true."

Some members of Congress are concerned about such consequences, though.

Sen. Joseph I. Lieberman, D-Conn., introduced a bill last year that would not only block the FASB rule change but would also create a statutory incentive for companies to extend stock options to all of their employees. The Lieberman bill would require that participating companies offer 50 percent of the options to the lowest-paid 80 percent of a company's work force. "Typically," Sollman says, "that's the way that stock options are already distributed in the high-tech industry."

While Lieberman's bill has not moved out of committee, he and Sen. Connie Mack, R-Fla., led a successful effort in the Senate in May to urge FASB not to adopt the proposed rule; the vote in favor of the nonbinding measure was 88-9. The U.S. Chamber of Commerce and 17 other business organizations signed a letter to the Senate supporting the Lieberman-Mack effort.

"I think the Senate spoke pretty loudly and clearly," Lieberman says, "and with a broad and impressive coalition in favor of stock options and against the proposed FASB rule. We're waiting to see what effect that has on our friends at FASB, and our hope, obviously, is that they will modify the rule."

FASB has met with members of Congress and tried to convince them of its openness, Beresford says, but "other people have to decide" if legislation is

needed. "We hope that won't be the case; it has never been the case in the past. Most people believe it's better to have neutral financial reporting that tells things like they are, as opposed to having Congress say, 'You shouldn't account for an expense because it's going to hurt certain businesses.'"

It seems highly unlikely that Congress will block the proposed rule. Even some of the rule's strongest congressional opponents recoil from going beyond a nonbinding resolution. The Senate affirmed its support for FASB's independence at the same time that it was urging the board to drop the option rule.

Dennis Beresford of the Financial Accounting Standards Board acknowledges that the proposed accounting rule would be more significant for smaller companies, which rely on stock options more heavily.

Rep. Anna Eshoo, D-Calif., who represents Silicon Valley and its concentration of high-tech firms, says that she doesn't like the proposed rule, but "I don't believe that Congress should get into regulating independent bodies. This independent body writes accounting standards; can you imagine [what might happen] if Congress gets into that?" She prefers instead to present what she considers a "meritorious case" to FASB and "turn them around on this."

Moreover, FASB's proposed rule has some supporters in Congress, Sen. Carl Levin, D-Mich., foremost among them. Levin sees the rule as a way of attacking what he denounces as excessive executive compensation. Levin's premise is that stock options are mainly of benefit to people at the top of a few very large corporations.

Reliable figures on stock-option plans are in surprisingly short supply, but opponents of the FASB rule argue that Levin is simply wrong. ShareData surveyed its customers last year, Breetwor says; of the 405 companies that responded, 35 percent—typically smaller and younger firms—were granting stock options to every employee. Only 7 percent restricted options to top management.

FASB's Beresford acknowledges that "we knew going in that [the proposed rule] was going to be more significant for smaller companies than for larger companies," because small companies rely on stock options more heavily.

"The stock-option question has to be separated from the question of executive compensation," Lieberman says. "We have concerns about executive compensation, but they can be addressed in other places. The great majority of people receiving options are middle-class workers."

Lieberman plans to push for stock-option reforms even if FASB concedes defeat. "One thing that I believe has come out of this," he says, "not just for myself but for a lot of others in the Senate, is a better understanding of how important stock options are, as a uniquely American way not only to attract capital but also to spread the wealth." For now, however, any larger discussion of stock options' role in American business will probably have to await FASB's resolution of the narrower issue of valuation.

At least one company expects to do just fine, however the controversy ends. As much as Cheryl Breetwor opposes the proposed rule change, she says it won't hurt ShareData's business. Quite the contrary, if the FASB proposal is adopted, she says, ShareData will profit: "The more complex you make it, the better our business is." NB

IBM Helps Mitchells Keep Customer King

In 1958, when Ed and Norma Mitchell opened the clothing store bearing his surname in Westport, Conn., the last thing on their minds was computerizing the business.

After all, their inventory consisted of three men's suits, and there were no accounts payable or receivable or customer lists to manage. Moreover, the IBM PC, which brought computing power to mainstream small businesses and to individuals, would not be invented for 23 years.

But even without the help of an automated data-processing system, the Mitchells earned a reputation for remembering customers' business and recreational-clothing preferences and for maintaining the appropriate inventory.

With Ed and Norma Mitchell retired now, the store is operated by sons Jack and Bill, daughter-in-law Linda, and grandsons Russ and Bob. At 25,000 square feet in size and with an inventory of more than 3,000 suits and a customer list of more than 60,000 households, Mitchells of Westport today is among the largest clothing retailers in New England.

Yet through the generational changes in management and the business's enormous growth, one thing remains the same: Every customer is treated as if he or she is the store's most important client. Says Jack Mitchell: "We consider our customers our friends, just as Mom and Dad did."

And the Mitchells still strive to learn and record their new friends' preferences. Jack Mitchell says, "so whether they are tennis players or golfers or actors or simply like to walk on the beach, we can fit each and every one of them with the clothing that they truly desire."

The business's family owners can retain the store's high level of personal service, control its high-volume, fast-changing inventory, and keep on top of its large and complex accounts payable and receivable thanks to a company Jack Mitchell calls "a real business partner and a partner in our business." That company is IBM, which has kept the Mitchells technologically current for more than 20 years.

The Mitchells "have developed a personal as well as a professional relationship with IBM" over the years, says Jack Mitchell. "Without the attention given to us by IBM representatives and without IBM technology," he says, "we simply wouldn't be able to keep that one-on-one perspective we believe in. I recommend to a lot of my retail friends and others that they join the IBM team. I'm not bashful at all about that because I believe that IBM has been a real part of our growth."

Concludes Mitchell: "I had confidence in the 1970s and '80s, and I still have confidence in the '90s that IBM will continue to help us bring our way of service to our customers."

IBM technology allows Jack Mitchell and his son Russ to track customers' clothing preferences.

Mitchells of Westport's successful growth story was one of several spotlighted at IBM's recent nationwide series of conferences titled The CEO Experience: Pathways To Growth.

The series of eight daylong events in May and June provided educational opportunities to the presidents and CEOs of fast-growing businesses with 100 to 1,000 employees. The programs were structured to help small-business leaders discover the best ways to compete in today's challenging economic environment and gain insight on how to build customer loyalty, save time, and expand their market shares.

Featured were not only IBM executives but also highly successful entrepreneurs, including Randall K. Fields, chairman of Park Cities Group and co-founder of Mrs. Fields Cookies; Jim McCann, president of 1-800-FLOWERS; and Brenda French, owner of French Rags. The conferences were moderated by author and syndicated columnist Jane Applegate, recently named the U.S. Small Business Administration's small-business advocate of the year.

The conferences also featured Solutions Centers—displays of IBM's latest client-server, workstation, desktop, and portable computing technologies, which can help small companies thrive in industries such as health care, finance, manufacturing, and distribution.

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HEALTH-REFORM WATCH

Support Wanes For Employer Mandate

Financing remains a major point of contention as Congress moves toward health-care reform.

By Roger Thompson

Suspense is growing over whether health-care-reform legislation will be enacted this year.

With Congress expected to adjourn in early October and no consensus in sight on what approach it will take, two major questions have arisen: Can Congress fashion a workable compromise from the many conflicting and complex reform proposals now before it? And will President Clinton accept that compromise?

The president has repeatedly said he will veto any bill that doesn't provide health insurance for all Americans. The key to universal coverage under his plan is an employer mandate, a requirement that employers pay most of the cost of health insurance for their workers and dependents.

Despite approval by three of five key congressional committees with jurisdiction over health reform, however, the employer mandate will need a political miracle to survive floor debate in both the House and the Senate.

From the small-business perspective, the mandate approach has been the most controversial aspect of the debate over health-care-reform legislation. The committees have searched for ways to include a mandate yet soften the cost impact for small firms.

But the Senate Finance Committee, regarded as the congressional bellwether of reform, could not even muster a majority for a delayed mandate that would be triggered only if 96 percent of Americans did not have coverage by 2000. About 85 percent of the population has health insurance today.

The best that advocates of a mandate in the Finance Committee could manage was approval of a provision to create a nonpartisan commission to recommend to Congress how to expand health insurance if 95 percent of the population isn't covered by 2002. By reducing the original mandate proposal to that level, the committee leadership was able to produce the only reform bill that came out of any panel with bipartisan support.

The House Ways and Means Committee, regarded as the second-most-influential committee engaged in the reform debate, narrowly approved an employer mandate on a 20-18 party-line vote. No Republican voted for the committee bill, signaling the intense partisan wrangling that lies ahead.

In an attempt to lighten the financial burden that an employer mandate would place on small companies, the Ways and Means bill includes a two-tier tax credit that would require the federal government to pay up to half the cost of health insurance for the smallest, lowest-wage firms.

Companies with 25 or fewer workers and average annual wages below $26,000 would be eligible for a maximum 50 percent tax credit. Companies with 26 to 50 workers and average wages below $26,000 a year would be eligible for a maximum 37.5 percent tax credit. The credits would expire Jan. 1, 2005.

The tax credits would be available to all qualifying small firms regardless of where they bought insurance. An estimated 4 million small businesses employing 28 million workers would qualify for the tax credits. They would cost about $66.7 billion from 1998 to 2005, according to the Congressional Budget Office.

The tax credit, however, did nothing to undercut widespread business opposition to a mandate. Says Lisa Sprague, manager of employee benefits policy for the U.S. Chamber of Commerce: "Some members of Congress keep trying to invent these complicated ways to make their plans less burdensome for small business. But from the small-business perspective, a mandate is a mandate, no matter how you try to sugarcoat it."

While the House Education and Labor Committee and the Senate Labor and Human Resources Committee also approved an employer mandate, both of these panels are regarded as too liberal to reflect the true political composition of either chamber.

A fifth committee—House Energy and Commerce—was so deeply divided over the mandate that its chairman, Rep. John D. Dingell, D-Mich., gave up. His options were to pass a bill without universal coverage, or not to act. He chose the latter.

Democratic leaders in the House and the Senate will take their respective committees' reform bills and piece together new legislation to present for

PHOTO: ©LAURENCE L. LEVIN

The receptive audience *for the announcement of the health-care-reform proposal offered by Senate Minority Leader Bob Dole, R-Kan., included Sen. Bob Packwood, R-Ore., seated; behind him, from the left, are Sen. Thad Cochran, R-Miss.; U.S. Chamber President Richard L. Lesher; and Sens. Conrad Burns, R-Mont.; Malcolm Wallop, R-Wyo.; Dole; Texas Republicans Kay Bailey Hutchison and Phil Gramm; and Judd Gregg, R-N.H.*

debate on the floors of each chamber. If both houses of Congress approve bills, the measures would then go to a conference committee for negotiation of differences and crafting of a final measure for passage by early October.

As health reform moves beyond the committee stage, the political climate on Capitol Hill has turned increasingly partisan. Rejecting Clinton's goal of universal coverage, Senate Minority Leader Bob Dole of Kansas has rallied 40 of the Senate's 44 Republicans around his own reform plan, announced June 29. It calls for universal access through insurance-market reforms and new subsidies for low-income families. Dole's plan advocates "no employer mandates, no price controls, and no taxes."

Richard L. Lesher, president of the U.S. Chamber of Commerce, praised Dole's plan, saying, "This is real health-care reform—market-based and as acceptable to working men and women as it is to American business."

The Chamber noted that key elements of its own health-care-reform plan were embodied in the Dole approach. Those elements are insurance reforms to ensure availability and portability of coverage, consumer choice, purchasing pools for small employers and individuals, simplified administration, malpractice reform, report cards on the price and quality of health-insurance plans, full tax deductibility of insurance premiums paid by the unemployed, and a standard minimum benefits package that all insurers would offer. The standard package would permit comparison shopping.

While the Dole plan does not call for tax increases, the Ways and Means bill, by comparison, would require significant new revenues to pay for expanded assistance to small firms, the poor, and the near-poor. It proposes a 2 percent excise tax on health-insurance premiums—including self-insured plans and health-maintenance organizations—and an increase of 45 cents a pack in the excise tax on cigarettes, phased in over five years.

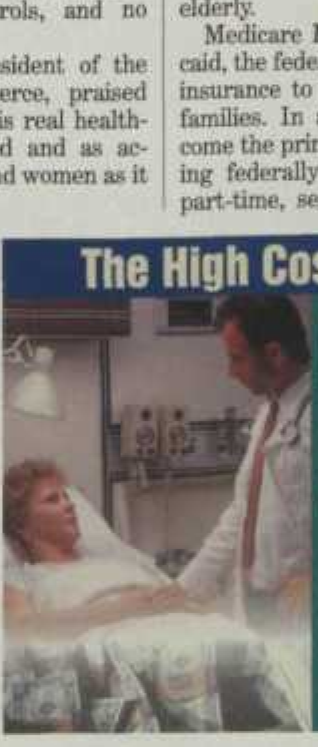
The most controversial revenue raiser, however, is the proposed requirement that all employers pay premiums for married workers, even if a worker is covered by a spouse's plan. The employer of a married worker choosing family coverage through the company would pay 80 percent of a family plan. The covered spouse's employer would pay 80 percent of the cost of an individual health plan.

The Congressional Budget Office estimates that employers would pay $118 billion in premiums to the federal government over the first four years for workers covered by a spouse's plan. The money would be used during this period to help pay for new health-care subsidies. After 2002, the money would go to those companies paying for family coverage to offset some of their added costs.

The 316-page Ways and Means bill would allow companies with up to 100 workers to buy health insurance three ways: through voluntary purchasing pools, from agents or brokers, or through a new federal program called Medicare Part C. Medicare Parts A and B cover hospital care and doctors' visits for the elderly.

Medicare Part C would replace Medicaid, the federal/state program to provide insurance to low-income individuals and families. In addition, Part C would become the primary mechanism for delivering federally subsidized health care to part-time, seasonal, and temporary employees; the unemployed; and those earning less than 2.4 times the official poverty level—or $35,433 for a family of four—without employer-sponsored coverage through a private insurer or purchasing group.

The High Cost Of Medicare Part C



Employers would pay 80 percent of the cost per employee for the basic benefits plan, whether through Medicare or outside the system. These are projected costs for 1998, when the arrangement would take effect.

Type Of Health Plan	Average Annual Premium In Part C	Average Annual Premium Outside Part C
Single	$3,623	$2,256
Couple	7,245	4,512
One-Parent Family	8,171	3,824
Two-Parent Family	9,262	5,508

SOURCE: LEWIN-VHI, INC.

Individuals and families earning less than a prescribed "threshold" amount—set in the bill at $7,400 for an individual, $11,500 for a family of two or three, and $16,000 for a household of four or more—would get free coverage through Medicare Part C. This provision would roughly double the number of Americans receiving government-paid health care. Forty-seven percent of all persons with income below 100 percent of the poverty level received Medicaid benefits in 1992.

Those earning between 100 percent and 240 percent of the poverty level would receive federal subsidies on a sliding scale.

The Ways and Means Committee included Medicare Part C at least partly as a way to help small businesses. But calculations by Lewin-VHI, a Fairfax, Va., health economics consulting firm, indicate that virtually no small businesses would opt for Part C because its insurance rates would be prohibitively expensive.

The committee bill requires that Part C premiums be based on the actual cost of those covered, including the poor who would get free care, and disabled persons currently covered by Medicaid. Because these two groups' health-care needs are higher than average, Part C premiums would be higher than community-rated premiums outside Part C.

Lewin-VHI estimates that of the 124 million people who would be eligible for Medicare Part C, only 19.5 million would sign up. Of those, 11.4 million would be current nondisabled Medicaid recipients, 5 million would be low-income nonworkers, and 3.1 million would be disabled Medicaid recipients.

Average monthly premiums for these three groups would be $248, compared with $149 for community-rated premiums outside Part C. In 1998, the projected annual premium for a two-parent family in Part C would be almost double that of a similar family outside Part C: $9,262 compared with $5,508. (See the chart at left.)

"Even if premiums are comparable, private insurance companies still would do a pretty good job of attracting people," says John Sheils, a Lewin-VHI vice president. "So if you put Medicaid people in there [Part C] and make it voluntary, it will be a pool of the highest-cost, sickest people. It will evolve into a national high-risk pool."

The U.S. Chamber has joined with other business groups to oppose the proposal for Medicare Part C. "It brings another sizable chunk of the population into a new, government-run program," Sprague says. "And it moves toward a government-controlled, single-payer system."

Clearly, the House Democratic leadership will have a tough time crafting a bill that will attract the 218 votes needed to pass health-reform legislation.

As the issues are drawn from the back rooms of Congress to the living rooms of millions of American homes via television coverage of the floor debate, public opinion becomes an important wild card in determining the outcome of reform. The side that does the best job of rallying public support in the weeks ahead may manage to deal itself a winning hand. NB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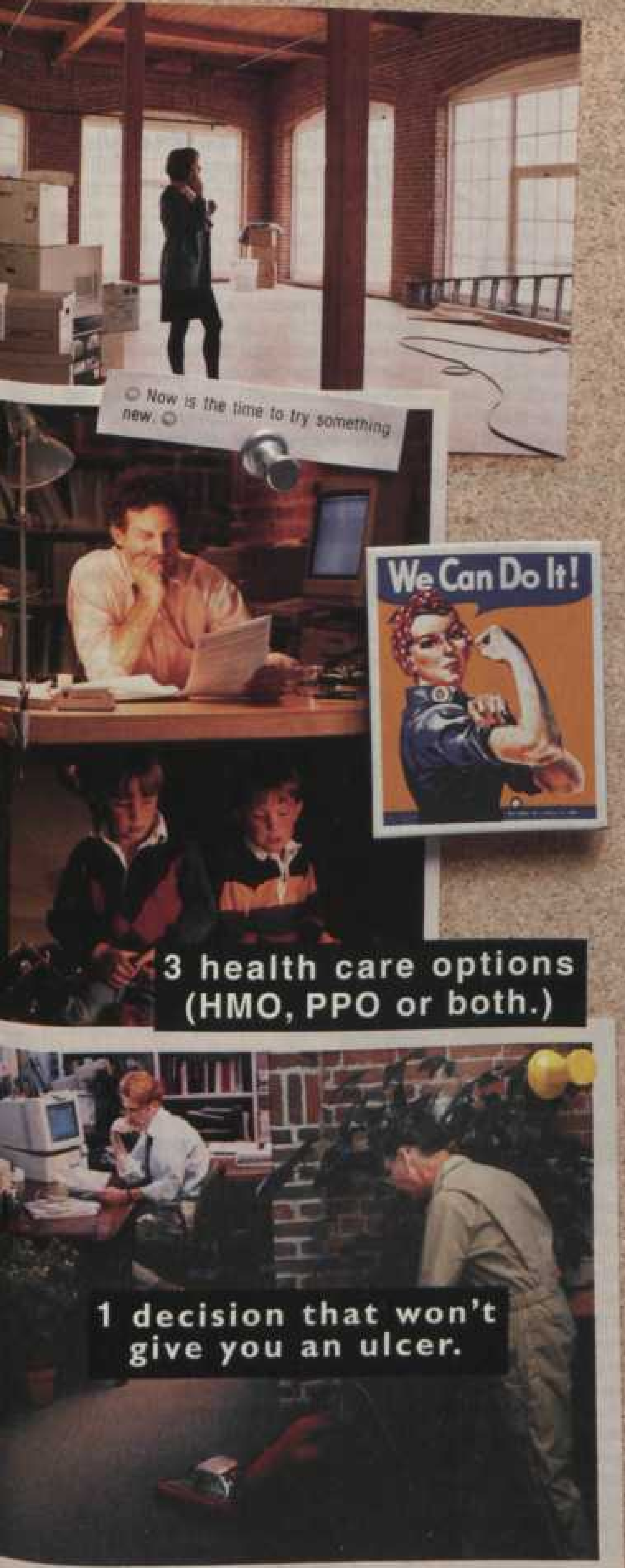

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FINANCE

A Liability Shield For Entrepreneurs

Many small firms are choosing a business structure that combines the pluses of a partnership and a corporation.

By Ripley Hotch

With surprising speed, states are creating a new form of business organization that tax experts predict will be adopted by many small companies that might otherwise be set up as partnerships or S corporations. The new structure may soon be an option for many sole proprietors as well.

Known as a limited liability company (LLC), the designation has been authorized by legislatures in 43 states—up from eight states just two years ago. The remaining seven states and the District of Columbia are expected to follow suit soon.

A key to the LLC's predicted popularity is the way it combines the advantages of corporations and partnerships—with few of their drawbacks. It provides owners the same shield from personal liability provided by a regular corporation; profits, meanwhile, are taxed only at the individual level, as in a partnership or an S corporation, rather than at both the corporate and the shareholder levels, as in a C corporation.

"The LLC will surpass the S corporation, general partnership, and limited partnership and become the predominant form of organization for small business," says Gordon A. Carpenter, a partner in the Providence, R.I., law firm of Hinckley, Allen & Snyder. He helped craft Rhode Island's LLC law.

In addition, five states—Arkansas, Georgia, Idaho, Montana, and Texas—allow sole proprietors to establish themselves as sole-member LLCs, conferring liability protection on individuals who never had it before. The IRS has not yet offered guidance on the tax ramifications of sole-member LLCs.

Nonetheless, the idea may soon spread. The Uniform Limited Liability Company Act, a draft law prepared for the National Conference of Commissioners on Uniform State Laws, provides for sole-proprietor LLCs.

The conference is made up of members appointed by state governors; all states are represented. It meets annually to consider adoption of uniform laws, frequently dealing with interstate commerce. The proposed uniform LLC act was set to come up for a vote during this year's conference in Chicago in late July. If approved, the proposals would go to the American Bar Association for consideration. Upon ABA approval, the uniform law would advance to the states for adoption.

Printing company owner *Robert Shriner chose the LLC form of organization when he bought a building in Cheyenne, Wyo.*

Most states could be expected to bring their own LLC laws into conformity, triggering rapid growth in LLCs among the nation's 15 million companies organized as sole proprietorships.

"Entrepreneurs have two concerns: limited liability and fair taxation," Carpenter says. Until recently, the best way to achieve those goals was to organize a business as a Subchapter S corporation, named for a section of the federal tax code.

Like a regular corporation, an S corporation provides limited liability protection for its owners. And profits are taxed only once, at the individual, owner/shareholder level.

But S corporations have two major drawbacks. They may have no more than 35 shareholders, and those shareholders must be U.S. citizens. Excluded are foreigners, domestic corporations, and co-owners of partnerships.

These restrictions do not apply to LLCs. There is no limit to the number of shareholders. Moreover, an LLC "can have partnership members, corporate members, and other LLCs as members," says Samuel Starr, tax partner with Coopers & Lybrand in Washington, D.C. "We're seeing them used in many different ways. They're sometimes used as a joint venture for a Fortune 500 company with a small company or individual."

The partnership is another popular form of business organization. Its biggest benefit is that profits are taxed at the individual partner level, not at the partnership level. But a partnership poses a serious drawback concerning liability.

In a general partnership, all partners face liability similar to that of a sole proprietorship. Personal assets are at risk, as well as the assets of the partnership.

Limited partnerships avoid this problem by establishing two classes of partners. Passive, or "limited," partners are exempt from personal liability for the partnership's debts. But state laws require that someone be designated general partner, who is liable.

Because LLCs avoid these liability problems, they already have become a popular choice for real-estate ventures, providing protection from potential environmental liability, says Fernando Murias, tax partner with Coopers & Lybrand in Tysons Corner, Va. Liability for pre-existing but previously undiscovered environmental problems can stop a deal instantly, and the traditional limited partnership still leaves one general partner exposed.

Medical and legal partnerships also are finding the LLC type of organization attractive, not only because of the limited liability but also because the form allows

all of the members to be involved in active management.

In fact, the advantages of the LLC form of organization make it attractive to almost any type of business, says Jerry Williford, a Chicago-based tax partner with the accounting firm Grant Thornton. "The LLC is a wonderful entity for any type of business, including manufacturing, retailing, real estate, and wholesale distribution," he says.

William Bagley, a Cheyenne, Wyo., lawyer, says that although the limits on liability and the partnership taxation are the major reasons entrepreneurs are choosing the LLC, there is a third motivation: flexibility. "That is often the best reason," says Bagley, co-author of *The Limited Liability Company* (James Publishing) and publisher of a newsletter on LLCs. "It's easy for owners to agree to do what they want with the business without restriction. They are not hamstrung by lots of rules from the IRS or from state statutes" governing corporations.

The flexibility is so great that it can be daunting in itself, Carpenter says. He has written agreements that range from "a very short agreement" stipulating that there is no formal operating agreement, "to a 40-page, single-spaced agreement with a number of corporate bylaw-type provisions."

When Robert Shriner decided to buy a Cheyenne office building a few years ago, he turned to Bagley for advice. Shriner owns several businesses organized as regular corporations, including a company that printed Bagley's book. Shriner picked the LLC structure when he purchased the office building, in part because of the liability advantages it offers over standard real-estate partnerships.

"The LLC is a simple form of organization," says Shriner, "and it protects our other [personal] properties." In addition, the LLC gives Shriner tax advantages in planning to convey the building one day to his heirs.

Given the advantages of the LLC form, "there's no reason for a partnership not to switch," Bagley says.

Why then wouldn't every partnership and S corporation switch to the new limited-liability form? Primarily because of cautious attitudes and the cost of doing so, the experts say.

"There's a significant cost in converting an existing business to an LLC," says Murias, of Coopers & Lybrand. "To convert a [corporation], you have to liquidate the existing entity," triggering tax bills at the corporate level and the shareholder level.

How Limited-Liability Companies Stack Up

	Owners Personally Liable For Debts	Profits Taxed As Personal Income
Limited-Liability Company	No	Yes
Sole Proprietorship	Yes	Yes
General Partnership	Yes, all partners	Yes
Limited Partnership	Only the general partner	Yes
S Corporation	No	Yes
Regular Corporation	No	Yes*

*Profits are taxed twice: Regular corporations pay tax on profits, and shareholders pay tax on dividends.

CHART: MICHAEL ROOK

With partnerships, however, "there are usually no tax problems," says Williford, of Grant Thornton. "The partnership doesn't even terminate for federal tax purposes; the LLC continues to file a partnership tax return."

For the time being, Murias thinks LLCs are best suited for new companies—which was the intent of most of the states that have enacted LLC legislation.

A second reason for the slow pace of development of LLCs is the complexity of setting one up, says Carter Bishop, a professor at the William Mitchell College of Law, in St. Paul, Minn. Bishop is the author of the proposed Uniform Limited Liability Company Act.

"New is always more complicated," Bishop says. And the major complication for the LLC is the need to draft an agreement among the members about the operation of the company. That makes the set-up more complex than in an S corporation, where the agreement of shareholders is not required. The expense here is the legal one in setting up the agreement and filing it with the state.

"There is more formality in an LLC than a partnership agreement," Bagley says. "You have to file articles with the secretary of state and pay a [filing] fee, and there may have to be some form of annual reporting."

Bagley, however, adds that "those things are not necessarily that bad. We find that a lot of times, especially if a company does business outside the United States, people are impressed that there is a charter issued by the state. A typical filing fee is about $100, and the typical attorney fees are essentially comparable to setting up a partnership or corporation."

Says Bishop: "I think that expense is offset by ease of operation later. I think eventually there will be default rules that will cover cases where there is no agreement, so it would be no more complex to create an LLC than a Sub S."

There are some other drawbacks to LLCs, although no major ones, Williford says. The Internal Revenue Service has not issued a general ruling on the tax status of LLCs, but it has issued many individual rulings that a particular LLC should be taxed as a partnership. Williford expects the IRS will issue a general ruling consistent with the private rulings, but it's not clear when the agency might act.

More bothersome is that the IRS has never issued even an individual ruling on a sole-proprietor LLC. It is possible, Williford warns, that the agency could rule that sole-proprietor LLCs should be taxed as regular corporations—at the business level and at the individual-owner level. "That would be disastrous," Williford says.

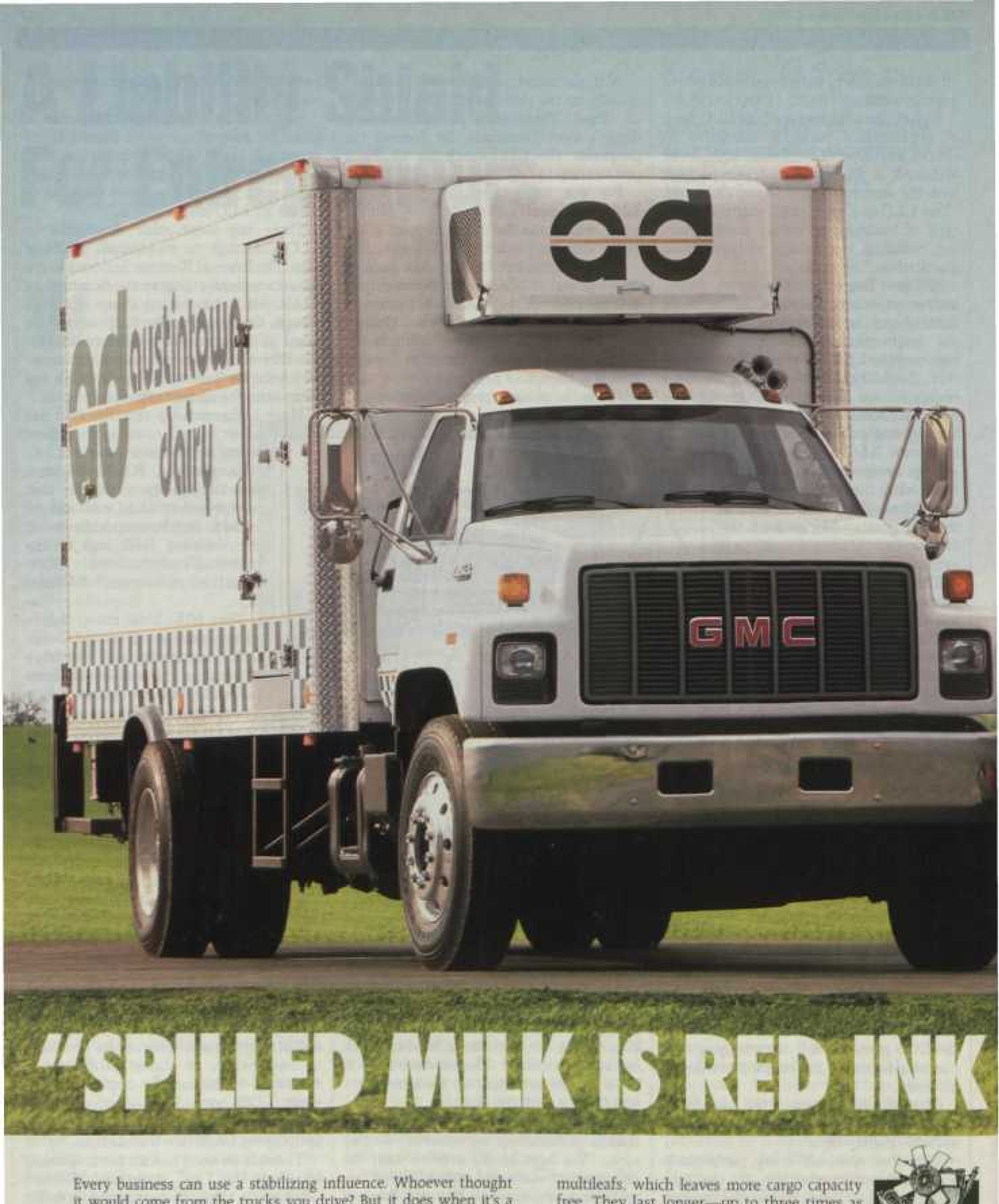
The IRS also must decide which owners of an LLC are active managers and therefore subject to the self-employment tax. Also, in some states, LLCs are treated as regular corporations for state tax purposes.

At the moment, each state has created its LLC law based on other states' laws, and they are not uniform. This has delayed adoption of this type of organization by entrepreneurs who operate across state lines because they aren't sure their entity will be recognized or granted the same liability protection as in their own state.

"As more states enact [LLC laws], crossing state lines becomes less of an issue," says Starr, of Coopers & Lybrand. He expects that the proposed uniform law will straighten out some of the problems of cooperation, as states go through a review of legislation and begin to revise their LLC laws. Bishop agrees: "The uniform act has the possibility of greatly simplifying interstate transactions."

There is no need to wait for uniformity to adopt the LLC structure, Williford advises. "I think the structure is being overlooked," he says. "Although the American Bar Association is aggressively promoting the use of LLCs, many attorneys are reluctant to use them because they are so new."

Williford's advice: "Businesses interested in the LLC should consult with an attorney who is familiar with the structure and experienced in its use."



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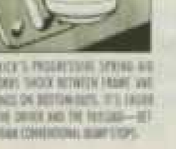

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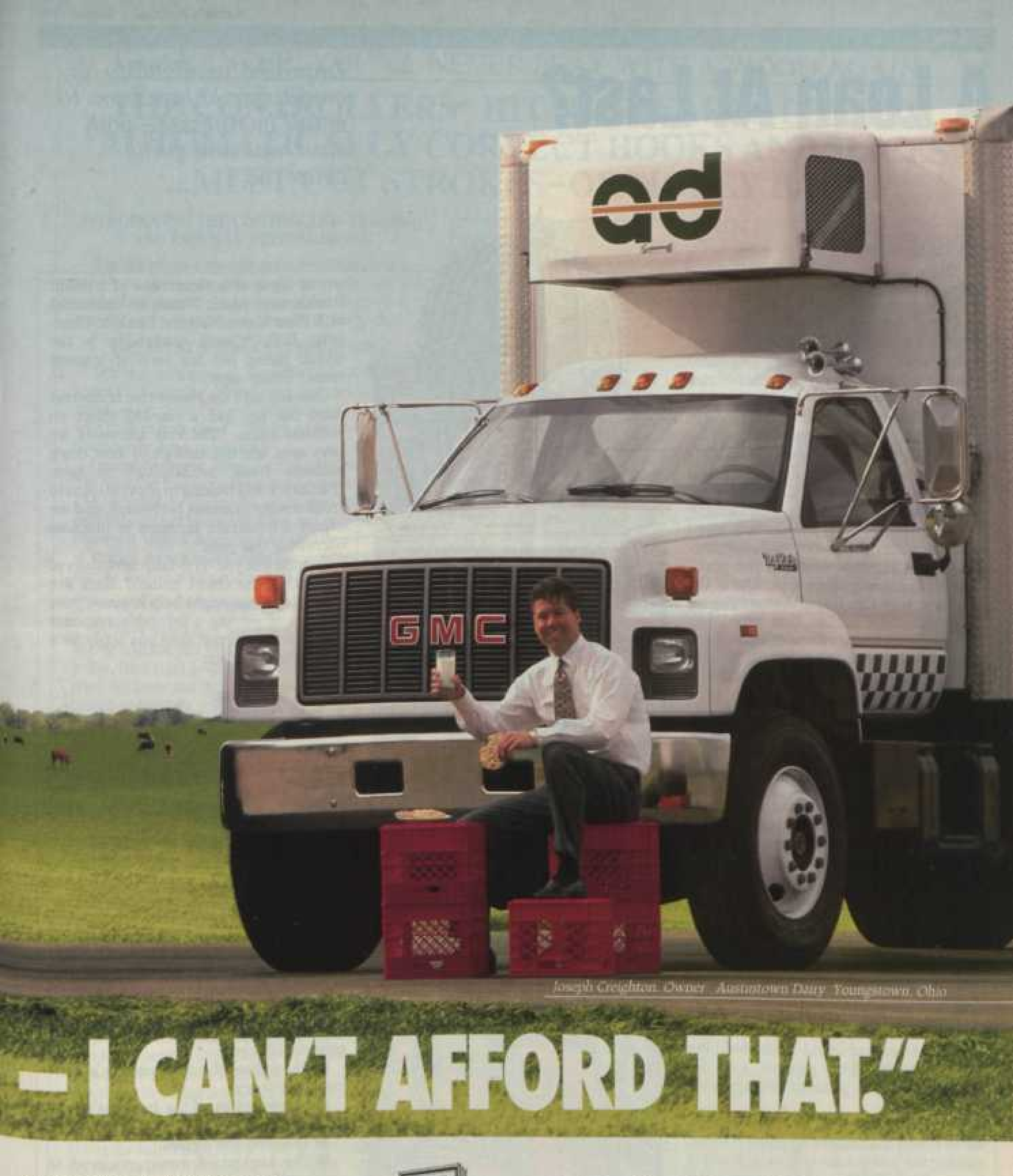

Joseph Creighton, Owner, Austintown Dairy, Youngstown, Ohio

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FINANCE

A Loan At Last?

Improved availability of credit should be a boon to small businesses—both start-ups and going concerns.

By J. Tol Broome Jr.

Demand for business loans is on the upswing, and banks have opened the credit spigot wider than at any point since the 1990-91 recession. From January 1993 to January 1994, total loans by banks based in the United States increased by almost $130 billion, up 18 percent. In contrast, from January 1990 to the end of 1992, bank loans declined by about $81 billion, or 15 percent.

"At the time, small-business men and women in all parts of the country were having difficulty obtaining credit for businesses or projects that they considered sound and for which they believed they would have received credit in the past," Eugene A. Ludwig, the comptroller of the currency, told the House Committee on Small Business earlier this year. "We were hearing many reports of small firms whose lines of credit were cut off, despite sound business prospects and unblemished credit histories."

Jim Chessen, chief economist for the American Bankers Association, in Washington, D.C., says a key reason for the credit crunch of the late '80s and early '90s was an overreaction on the part of Congress and the major banking regulatory agencies to the savings and loan crisis.

That "brought about an environment of 'make no mistakes in lending' that caused banks to be overly cautious," Chessen says.

In March 1993, federal regulatory and administrative policy changes were instituted to improve the flow of credit to the nation's small and medium-sized businesses.

"Some of the Clinton initiatives did start the ball rolling," Chessen says. These actions coincided with declining interest rates, which spurred loan demand and helped promote economic recovery.

Since February 1994, the Federal Reserve Board has nudged up interest rates, causing the prime rate—the rate at which banks lend to their best commercial customers—to rise to 7.25 percent from 6 percent. (Small-business loan rates usually run 1 to 2 percentage points above the prime rate.) The increase by the Fed was designed to keep inflation from igniting.

Nonetheless, credit remains available in every region of the country, and there are no signs of a recurrence of a credit crunch, says Mark Vitner, an economist with First Union National Bank, in Charlotte, N.C. "Credit availability is the crucial factor, not the level of interest rates," Vitner says.

Chessen says the recent rise in interest rates has not had a marked effect on business loans. "The rate increases we have seen are not enough to slow down business credit availability," he says. "Banks are still looking to provide loans to creditworthy business borrowers, and we expect a 5 percent increase in business borrowing this year."

So what can you do to take advantage of the end of the credit crunch? Here are some steps that might help improve your chances of getting a favorable response from a bank the next time you apply for a small-business loan:

J. Tol Broome Jr. is a vice president at FirstSouth Bank in Burlington, N.C.

ILLUSTRATIONS: JERRY DADDS

Educate Your Banker

A bank that is unfamiliar with your business and industry is less likely to give a favorable response. A narrative business plan is an excellent way to tell a banker what your company does and how it does it. This is essential if you seek financing for a start-up venture, but it also is a valuable exercise for existing businesses. Most business plans include the following:

- A summary of what the business plan covers.
- A brief history of your company, or the origination of the idea if the company is a start-up.
- Résumés of managers and other key employees.
- A description of the products and services offered.
- An outline of your company's marketing strategy.
- A description of the business's day-to-day operations.
- The company's goals.
- The amount of money required to operate the business.
- Financial projections.

Most bankers prefer a concise, informative synopsis of your business. "Having something written on the business makes me think they have done some thinking and planning on their own," says Glenda Frangenberg, a commercial-loan officer with Citizens Bank of Jonesboro, Ark.

Another effective way to educate a banker about your firm is to have him or

her visit your company. A visit will allow the banker to see your operation and the products and services offered and to meet with your key employees.

Show That You Can Repay The Loan

Your financial track record is a major factor in the lender's loan decision. An existing company will be required to present at least three years of company financial statements and a current personal financial statement.

A start-up will have to include a personal financial statement and other information, including a business plan. Whether your business is an existing concern or a start-up, your financial projections will be closely scrutinized.

A lender will not make a loan without confidence in your company's ability to generate the cash flow sufficient to repay. "We are cash-flow lenders, so this is a key area of the loan request," says Mike Gilligan, a small-business loan officer with Chase Manhattan Bank in New York.

In analyzing the past performance of your venture, your banker will consider five key areas: sales trends, profitability, liquidity, leverage, and cash flow.

"We look very closely at the trends of the company," says Gilligan, who has 22 years of lending experience. "If we see sales on the rise, good liquidity, and earnings being retained, then that's a good sign."

In addition, Gilligan says, "we look at

the equity investment of the owners in the business. The more equity, the better."

Gilligan says that to maintain flexibility, his bank does not impose a minimum allowable level of equity.

But most banks calculate a debt/worth (total liabilities/total equity) ratio as part of their analysis. For most industries, lenders prefer that this ratio not exceed 4:1—for every dollar you have invested in the business, liabilities should not exceed $4.

Bankers also look for a positive bottom line. But if your business has lost money in a recent period, there may still be hope. If your prior profitability performance was positive, emphasize this. Then explain what you plan to do to get the company back in the black.

"We can handle situations in which a company made money for a few years and has one bad one," says Scott Day, a vice president with First National Bank of Michigan, in Lansing. "I guess you could say we will do small-business loans to those who have fallen and can't quite get up."

Says Glenda Frangenberg: "In addition to historical statements on the company, we require a personal financial statement on the owner. If the owner is loaded to the gills with personal debt, then that's a problem."

The personal financial statement should include a balance sheet reflecting all assets and debts owed and the individual's net worth, along with a disclosure of annual income. In addition, many banks like to see two or three years of tax returns from the owner or owners to verify income and to analyze trends.

Have Collateral

"Collateral is a very important factor for all of our small-business loans," Scott Day says. "The amount of emphasis we place on the collateral depends on the whole

Key Actions By Financial Agencies

Here are some of the steps that have been taken recently by major federal financial regulatory agencies to improve the availability of credit:

March 1993. A joint policy statement is issued by the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp., and the Office of Treasury Supervision allowing well-capitalized banks to set aside a certain number of loans that are examined solely on the basis of the loans' performance.

This allows banks to make more so-called character loans, which are based largely on the borrower's ability and willingness to repay.

May 1993. The key financial agencies announce initiatives to detect lending discrimination and to strengthen fair lending enforcement. A number of banks have since been fined for discriminatory lending practices.

June 1993. The financial agencies reaffirm their position that real-estate loans should be evaluated on the basis of the borrower's ability to repay and on the property's capacity to produce income. This is designed to stop examiners from judging real-estate loans on the basis of liquidation values, which sometimes causes banks to foreclose prematurely.

June 1993. Financial agencies announce a coordinated program to eliminate duplicative loan examination efforts. The purpose is to free up more time for banks to focus on lending rather than on regulatory compliance.

June 1993. Three separate directives are issued by the key financial agencies to encourage banks to work with small-business borrowers experiencing temporary difficulties.

December 1993. The financial agencies propose sweeping revisions to the Community Reinvestment Act (CRA), which requires banks to provide credit and other banking services to all parts of the communities they serve. The intent of the revisions still under consideration is to shift the focus from meeting documentation requirements to making credit available to all community segments, including small businesses.

June 1994. A joint policy is issued by the financial agencies increasing to $250,000 from $100,000 the minimum level at which banks must require state-licensed or certified appraisers on real-estate loans.

Additionally, for business loans under $1 million, outside appraisals are no longer required as long as real estate is not the primary source of repayment.

The purpose of this measure is to reduce closing costs for borrowers and to allow banks more flexibility in lending to individual as well as small-business borrowers.

package. In fact, it can be the determining factor in certain situations."

Bankers look at two key areas when analyzing collateral: quantity and quality. The quantity part of the assessment involves the calculation of a loan-to-collateral value ratio. For instance, most banks will loan 65 to 90 percent of real-estate value; 60 to 80 percent of accounts receivable; and 50 to 80 percent of machinery, equipment, and inventory.

The quality of collateral is a more subjective determination but is equally important in the overall analysis.

If your request involves real estate as collateral, the bank will consider the potential marketability of the property in case of foreclosure. For a loan collateralized by accounts receivable, the collectibility of the accounts will be scrutinized. And for equipment and inventory loans, the risk of obsolescence will be investigated.

In addition to requiring collateral for most loans, bankers also generally ask for personal guarantees from the owner or owners. The guarantee agreement provides a secondary repayment source from the business owner in case the loan becomes severely delinquent.

"It is a policy here that the principals of all closely held companies guarantee loans that we grant," Glenda Frangenberg says. "If they aren't willing to back up the loan, then we probably aren't either." For most lenders, there is little distinction between a small business and its owner or owners. "In small business, the owner is the business," Day says.

Why Bankers Turn Down Loans

Here are some of the key reasons why banks may give "thumbs down" to an application for a business loan:

- Bank's lack of familiarity with the business and its owners, or with the industry in which the business operates.
- Excessive business losses by the applicant.
- Unwillingness on the part of the owners to guarantee the loan personally.
- Insufficient collateral.
- Inadequate preparation by the owners.
- Insufficient equity commitment from the owners.
- Past personal credit problems of the owners.
- Government regulations that restrict certain types of lending.
- Poor regional or national economic conditions.

Special Considerations For Start-Ups

The recent credit crunch probably had the most profound impact on entrepreneurs looking to start ventures. If you are starting a business now, you stand a better chance of obtaining bank financing. But your idea must be well-supported. A well-prepared business plan and a demonstration of the ability and integrity of management are critical elements in winning bank approval.

If you still can't get a regular bank loan, consider applying for a Small Business Administration-guaranteed loan. The attraction of these loans for banks is that the lenders recover most of their money from the SBA if a small-business borrower defaults. The SBA last year guaranteed more than $5.3 billion in loans, and about one-fourth of those loans were to start-ups.

Applying for a loan is never easy, and there's no guarantee of success. But presenting a well-prepared loan package will certainly enhance your chances of taking advantage of the recent upsurge in credit availability. NB

To order a reprint of this story, see Page 68.

REGULATION

Controlling Wrist And Back Injuries

The Labor Department will soon propose regulations to curb repetitive-motion disorders.

By Laura M. Litvan

At a small meat-packing company in Aurora, Ill., Corporate Safety Director Michael Fagel glances across the plant floor in search of possible hazards to his workers, knowing that many of the dangers he has to spot can be quite subtle.

As they process meat for delivery to customers such as supermarkets and restaurants, employees of Aurora Packing Co.—like meat-plant workers everywhere—face the risk of injury stemming from the angles of their wrists as they continually work with their knives. Keeping the wrist in a bent, awkward position over time can give rise to carpal tunnel syndrome, an injury in which the protective sheaths around tendons in the wrist swell, causing painful pressure on a nerve that runs toward the hand.

PHOTO: ©PHOTOVISIONS INC.

At Aurora Packing Co., *employees rotate the types of work they perform to minimize the risk of injuries caused by tasks that require repetitive motions.*

The U.S. Department of Labor has identified the meat-packing industry as being at the highest level of risk for worker contraction of this and other "cumulative trauma disorders," or CTDs. Such injuries occur when workers use the same muscles to perform tasks over and over, resulting in injuries to the arms or back.

Since Fagel joined the company two decades ago, three workers have been diagnosed with carpal tunnel syndrome. But the company has also worked aggressively during that period to curb the potential for more cases, incorporating efforts to prevent CTDs into a wide-ranging safety program.

In fact, Aurora Packing's comprehensive worker-safety strategy earned it a "star"—the highest award possible—from the U.S. Department of Labor under its Voluntary Protection Program, designed to recognize companies that excel in worker-safety efforts. In 1992, when the meat-packing industry had a rate of 13.4 injuries resulting in lost workdays per 100 workers, Aurora's rate was 9.1, or 32 percent below the industry average.

As part of Aurora's effort to address CTDs, each new employee works side by side with an expert butcher for a month. During this period, the worker is warned repeatedly about the dangers of holding a knife at an awkward angle with the wrist bent. There is safety training each morning, and a nurse is on hand to examine any worker who may feel discomfort.

In addition, the company makes sure its employees do not process the same cuts of meat all day; instead, workers vary the types of work they do. "They don't have eight hours a day where they do the same thing, over and over and over," Fagel says.

Although Aurora established its program voluntarily, within two years more companies will be required to fashion their own approaches to prevent CTDs. By October, the Labor Department is scheduled to propose for the first time regulations addressing such injuries. They will affect employers and workers in factories, fields, and office settings.

The Labor Department's top ergonomics expert told *Nation's Business* that an early draft calls for the regulations to apply to businesses of all sizes. Barbara Silverstein, special assistant for ergonomic programs at the U.S. Occupational Safety and Health Administration (OSHA), said employers would be given wide latitude in choosing methods to address potential hazards.

"The intent at this point is to have it be quite flexible in terms of employers, if they have a problem, finding out the best way to fix it," Silverstein said.

The proposal this fall will likely require company managers to evaluate their companies' histories of work-related injuries. If a review reveals problems of strains caused by repeated motions by workers, Silverstein said, they will need to take steps to protect the employees.

Currently, OSHA experts are preparing lengthy appendices to the proposal that will spell out considerations for employers, including the possible need for adjustable office furniture and rotating of

workers or tasks on factory lines. "We're going to make this user-friendly so that employers don't need to bring in outside experts to understand what they can do," Silverstein said.

One central aspect of the proposal is likely to be a requirement that employers measure the effectiveness of their solutions after they are implemented. If workers continue to suffer repetitive-motion injuries, employers will be responsible for trying different approaches until they find a solution, Silverstein said.

The Labor Department has tracked an upsurge in work-related injuries resulting from "repeated trauma," which includes a wide range of possible injuries, among them repetitive-motion cases and hearing loss. In 1980, 18 percent of occupational illnesses were reported as associated with repeated trauma, but by 1989 the figure had climbed to 52 percent, according to the U.S. Bureau of Labor Statistics.

Data released by the bureau this spring gave a closer view of injuries caused solely by repetitive motions. In an analysis of ailments resulting in lost workdays in 1992, the BLS found that nearly 90,000 cases that year were believed to be associated with repetitive motions. The 90,000 cases represented about 4 percent of all injuries in the study. (See the chart at right.)

Repetitive-Motion Injuries

These percentage breakdowns are drawn from a U.S. Labor Department study of 90,000 repetitive-motion cases in 1992 leading to lost workdays.

Percentage Of All Cases

TYPE OF REPETITIVE MOTION	
Typing or key entry	12%
Repetitive use of tools	18%
Placing/grasping/moving objects, except tools	31%
Other motions	14%
Type of motion not reported	25%

WORKDAYS LOST	
1 to 10 days	37%
11 to 20 days	14%
21 to 30 days	10%
31 days or more	39%

DISABLING CONDITION	
Carpal tunnel syndrome	36%
Sprain, strain	18%
All other conditions	46%

(Because of rounding, some totals do not equal 100%.)

MAJOR INDUSTRY	
Manufacturing	56%
Wholesale/retail trade	15%
Services	15%
All other industries	14%

SEX OF WORKER	
Women	65%
Men	34%

AGE OF WORKER	
Under 25 years	11%
25 to 54 years	80%
55 years and over	7%

PART OF BODY AFFECTED	
Wrist	51%
Hand, excluding fingers	6%
Shoulder	6%
Other body parts	37%

SOURCE: U.S. DEPARTMENT OF LABOR

CHART: AMY PUGLISI

In comparing absences from work for all types of job-related injuries in 1992, the BLS found, repetitive-motion injuries accounted for the longest absences; nearly 40 percent of these victims required at least a month away from work to recover.

Repetitive-motion injuries began attracting more attention in the mid-1980s, partly as a result of increased publicity about carpal tunnel syndrome, an ailment that occurs in factories as well as offices where workers use computer or typewriter keyboards much of the day.

In 1991, the international president of the United Food and Commercial Workers International Union (UFCW) petitioned then-Labor Secretary Lynn Martin to develop an emergency temporary regulation to require that employers take action against ergonomic hazards. She declined but emphasized that a proposed regulation was being planned.

Martin never completed work on a proposed regulation, but she did release voluntary guides for the meat-packing industry. The guidelines, which were broadly written so that other industries could also use them, stressed the need for companies to include four components in efforts to reduce CTDs. These were: evaluation of any jobs with a history of problems with CTDs, prevention and control of injuries, medical management, and training and education for workers.

These guidelines were used as a starting point of discussions for the OSHA team that is now writing the proposed ergonomics rule, said one Labor Department source.

Now, as the Labor Department nears the announcement of its plan, business and organized labor are watching closely. Peter Eide, manager of labor law at the U.S. Chamber of Commerce, says there is still much that is unknown about these injuries, including how many repetitions of a particular activity are likely to put an employee at risk. He says he is concerned that the regulations may require employers to take steps that will hamper operations but ultimately do little to improve worker safety.

In addition, Eide says, employers might be able to control repetitive motions at work, but they have little or no control over their employees after hours, when many Americans participate in sporting and other activities that might involve repeated motions.

Greg Denier, a spokesman for the UFCW, says that many employers have long ignored the risks posed by repetitive motions, largely because they are "hidden injuries" that are unseen and only gradually become painful to employees. He says his union will push for a strong mandate that companies address ergonomic hazards, and he is expecting a fight with business groups over the content of a final regulation.

Once proposed regulations are released and Labor Department officials work to craft a final rule within two years, its authors will walk a fine line between the flexible and the specific, says Peter Susser, a labor-law attorney with the Washington, D.C., office of Keller and Heckman.

On the one hand, a final rule will probably need to keep flexibility as a central tenet, particularly because the regulations will affect many types of industries, he says. But on the other hand, he adds, the Labor Department is under pressure to spell out ways that companies can comply.

In the past, OSHA has occasionally penalized companies that have had problems with CTDs, acting under a clause of the 1970 Occupational Safety and Health Act that says employers have a general duty to abate workplace hazards. The broadness of the clause gives OSHA considerable latitude. But OSHA sometimes has had problems getting penalties to stick when employers have appealed to the Occupational Safety and Health Review Commission.

Susser cites a case involving Pepperidge Farm Inc., of Norwalk, Conn., as indicative of the problems regulators can face in addressing CTDs without having given employers specific, recognized steps to prevent them. The Pepperidge

REGULATION

Farm case began in 1988, when OSHA inspectors visited the company's cookie factory in Downingtown, Pa. The visit took place after a worker had complained to the agency that he had carpal tunnel syndrome. After a comprehensive work-site investigation, the agency assessed total penalties of about $1.4 million against the company, a subsidiary of Campbell Soup Co., in Camden, N.J.

Among other citations, OSHA charged that 175 workers were exposed to "ergonomic hazards" on the assembly line because they were performing similar motions repeatedly. OSHA said the company had a general duty to protect employees from workplace hazards, as outlined in the workplace-safety law.

The company appealed OSHA's decision to the agency's review commission, and in May 1993 an administrative law judge, David G. Oringer, decided that only $395,000 of the $1.4 million in penalties would remain intact. Oringer said a key reason for his decision was that OSHA had established that repetitive motions constituted a hazard but had not proven that there were feasible ways to abate the threat to workers. Oringer said that burden was on OSHA.

The Pepperidge Farm case has had many business managers worried that OSHA will go to great lengths in the upcoming proposal to spell out how companies can prevent CTDs, such as specifying a maximum number of keystrokes that workers can punch on their computers each day. If it's very specific, their anxieties could turn to anger over another regulation that limits their flexibility in running their businesses, Susser says. "Some people see this as an issue of overall control over the workplace."

Nonetheless, Susser adds, many companies are already taking steps to address repetitive-motion injuries, and if the Labor Department's proposal proves to be flexible, those firms may not have problems with it.

"Some employers will not be vigorously opposed to a very general standard," he says, "because they have already been addressing some of this." NB

PHOTO: ©MICHAEL THOMAS—STOCK SOUTH PNI

Workers in office settings, *like employees in manufacturing jobs, will be covered by a proposed regulation addressing repetitive-motion injuries.*

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Reducing Motion-Related Risks

More employers are beginning to develop their own policies for curbing the potential for "cumulative trauma disorders," or CTDs. Many times, firms are nudged to act by insurance carriers that offer workers' compensation coverage.

At Liberty Mutual Insurance Co. Inc., a Boston-based company that is the largest provider of workers' comp insurance in the United States, researchers have been tracking problems associated with repetitive motions for three decades, and they have pushed many customers to address such problems to help keep costs down. "Overall, more and more businesses are understanding ergonomics more fully," says Kenneth Brock, a senior vice president at Liberty Mutual.

As companies work to address ergonomic hazards, there are many suggestions and aspects worth considering. Here are just a few tips from experts at Liberty Mutual and from the Center for Office Technology, a coalition of computer makers, in Rosslyn, Va.:

Form an ergonomics team. This team can work to identify particular administrative or factory line jobs where workers may be at risk for contracting CTDs. It can then develop a plan to address them, be it with additional work breaks, rotation of workers, or extra training for employees. Be sure to include representatives who perform different functions in the office, such as operational managers, engineers, and workers in high-risk jobs.

Train workers about potential hazards. Encourage them to speak up early on if they are feeling discomfort that might stem from a CTD. Workers must realize that awkward body postures and repeated motions without any variety can increase their risk of developing an injury. Encouraging workers to come forward early can prevent loss of a key worker for an extended time and, in some cases, expensive surgery.

Keep CTDs in perspective. Particularly in a manufacturing setting, CTDs account for only a small part of worker injuries, Liberty Mutual officials say. The company says that only 1 percent of all workers' comp claims it processed in 1991 were associated with CTDs to the upper extremities, while back injuries were a far larger problem—37 percent of 800,000 claims filed. Tom Leamon, director of Liberty Mutual's research center, warns that companies should not let efforts to prevent CTDs eclipse other aspects of safety programs.

Make sure an employee is comfortable in his or her workstation. Workers in an office setting should adjust their chairs and the heights of their computers screens so that eyes are nearly level with the top of the screens. When workers type on their keyboards, they need to keep their wrists straight, not bent backward in an awkward position. Workers should be centered before their keyboards, so they are not leaning to one side or the other while they type.

Convey management's commitment to a final plan. One method of making this clear to everyone in the company is to post a synopsis of company safety efforts to address CTDs once a final strategy is fashioned by the ergonomics team.

Fagel, of Aurora Packing, says strong management support is instrumental to his company's success. "All the OSHA rules in the world won't make you safe," he says, "unless everyone at the company is committed to making improvements."

MARKETING

Could Your Shop Use A Face-Lift?

What your premises tell customers about your firm is likely to affect the bottom line.

By Roberta Maynard

Do you think the clutter on the shelves and the rip in the carpet don't contradict the positive message you are trying to send about your business? Think again. The appearance of your workplace creates an impression about the quality of your product or service and even about the way you run your business.

In fact, it's even likely to affect the bottom line. According to Joseph Siegel, vice president of retail services at the National Retail Federation, in Washington, D.C., any noticeable improvement in a business's appearance—inside or out—can result in a 10 to 20 percent increase in sales in the first year. "We know that newness sells," Siegel says. "Customers notice when a store looks more updated, fresher, and more exciting."

PHOTO: T. MICHAEL KEZA

"It's very important *that we make an impression that although we're a small business, we're a substantial one," says Kevin Grace, president of Spring Engineers.*

No business—retail or otherwise—should go more than seven years without making some appearance changes, he says. The makeover can be extensive or as simple as a coat of paint and a little landscaping.

If your business is due for a face-lift, where do you begin? "Before making any design changes, a business should first think about the image it wants to convey," according to interior designer Sandy Lucas of The Bryan Design Associates, in Houston. You could decide to select a traditional or a contemporary look, or you could choose a style that Lucas calls eclectic, which draws from various sources and styles and could be used to achieve, for example, a homespun, high-tech, or whimsical effect.

Kevin Grace, president of Spring Engineers, Inc., in Dallas, hired Lucas to create a traditional image at a new facility in an industrial park. The 27-year-old company, which employs 50 and has $13 million in annual revenues, makes springs for tools and other applications.

"We have a lot of vendors and suppliers coming to visit, and we often bring customers for tours of the machine shop," Grace says. "It's very important that we make an impression that although we're a small business, we're a substantial one. The style also fit with our company because we're sort of traditional people."

The finishing touches were needed for 10,000 square feet of space, which included a small receiving lobby, an employee lounge, and an area for sales, accounting, and management offices.

One of the challenges was a 12-foot-wide hallway that leads to the employees' offices. In addition to using wall hangings, live plants, and furniture, Lucas placed a table in the center of the hall with a flower arrangement.

Employees didn't want the table because it would be too much trouble to walk around, Lucas says. "But I convinced them to try it for one week, which we did with an old, borrowed table. It turned out not to be in the way at all, and it did a lot to visually fill the area."

"Without decoration, the hallway looked like a bowling alley," Kevin Grace says. "Now, it looks more like the lobby of a hotel." Grace is pleased with the entire result. "You get a very good feeling when you come in. And I think the employees appreciate a nice workplace, too."

Grace's budget of $20,000 allowed him to purchase a few large pieces of furniture and several smaller pieces for the common areas, reupholster a sofa, and buy pieces of decorative artwork. It also covered the designer's fee. "You can do an awful lot on an economical budget," he says. "And if you can find someone who reflects your personal tastes and who is reasonable in terms of cost, using a decorator is a good way to go."

An 18-month-old company in Houston sought a very different image for its new offices in a downtown high-rise. The firm develops solutions for environmental cleanup problems and provides technical environmental support.

"We wanted a tone that was earthy, yet technical," says Linda Marvin, director of administration and marketing at Lockheed Environmental Systems and Technologies Co., a subsidiary of Lockheed Corp. "You have to consider whether the look reflects your culture," Marvin says. "We have an entrepreneurial, marketing culture. We are dynamic and growing, yet we are professional."

Marvin chose an abstract style and used browns and blues to suggest a warm yet simple environment. Live plants were used extensively. The reception area and the conference rooms were painted dark

taupe to match an existing carpet with a simple border. The walls of individual offices also were done in neutral tones—but much lighter, for the comfort of workers spending most of their day there.

"It's important to choose colors that people are comfortable with and that work in the spaces," says Lucas, the designer. "And by choosing colors carefully, you can create drama with simple building-grade paint." For example, using contrasting colors on different sides of a corridor can be effective for a hallway that may be too oppressive if done in a dark color or too dull if done entirely in a lighter shade.

Before deciding to paint, consider the level of wear and tear in areas to be decorated. Painted walls are less expensive than covered walls but less tolerant of abuse, Lucas says. Also, dark colors show more nicks and therefore require more maintenance.

Make the most of architectural elements, which add interest to plain areas. In older buildings with high ceilings, for example, use the crown molding or interior brick walls to your advantage, and if such features are not original to the space, they can be added, she says. "If you have a column, don't ignore it, paint it; try to tie it in with the design."

Most important is that all elements work in harmony to create the image and that no elements dominate. "Perhaps the biggest mistake of companies doing the work themselves is the tendency to overdecorate," Lucas says. "They tend not to look at the overall finished product, and this often results in designs that are too busy, too complex, and just an overdone look. The sofa, for example, shouldn't be the focus of the room—it shouldn't be seen or heard."

Lucas prefers solid or muted patterns for furniture and recommends commercial-weight fabric for its longer life. Buy the best quality you can afford, she advises, and get it from established manufacturers.

Use artwork to help create your design, but select it carefully. "To avoid offending clients or customers, stay away from the controversial, even if you are using an avant-garde theme," Lucas says. If you have chosen a traditional style, guard against appearing too residential, she cautions, because it could diminish your office's professional look.

"Landscapes are a good choice, but avoid portraits or images with children, unless, of course, that ties into the nature of the business," she says. "If your artwork can incorporate what your business does, that can be a design factor *and* a marketing tool."

A professional image can also be diluted by offices that are too personalized. Employees at Spring Engineers were encouraged to participate in the decorating process by choosing art for their own offices from a selection of paintings. This allowed them to use art that reflected their own tastes yet complemented the overall look of their offices.

Interior signs can also be design elements. Lockheed Environmental Systems wanted a look that combined high-tech as well as earthy qualities. The sign developed for its lobby is made of granite, suggesting natural products, and has an iron grid that represents technology. Mounted on the wall, the sign not only is functional but also is a piece of art.

"In choosing artwork, large things are better than small," Lucas says. "If a painting can be seen from the street, so much the better. Get as much mileage out of the money you spend as you can. Think big. If you're timid about your art, it portrays that you don't have confidence or that you think small for your business."

Beyond appearance, a workplace redo must address efficiency. Is it functional?

Lucas was asked to redesign an oddly shaped space that was used as one person's office and also doubled as an occasional workspace for others. Instead of opting for the traditional—and space-consuming—desk and credenza, she had a workstation built to fit the space.

The cost was justified, she says, because the change made maximum use of the area and vastly improved everyone's ability to be productive there. "Some people say they need more storage space," says Lucas, "when they really need a reorganization."

It often takes a fresh eye to spot functional flaws, particularly when you've been in a space for a long time. If you aren't working with a designer, ask a friend who doesn't frequent your office or store to come in and evaluate the space for function and appearance. Or, take photos; they may reveal areas that are empty, crowded, or cluttered.

When designing a space and configuring furniture, take a moment to think about the people who will be coming in. If you are likely to have many customers pushing strollers, for example, be sure there is maneuvering room.

Similarly, if you want to accommodate people in wheelchairs, you need to provide a place with a five-foot turning radius, Lucas advises. "And while a rug sitting on a carpet can be attractive, it is an impediment for a disabled or elderly person," she adds. "Pay particular attention to the entry to your business, and evaluate anything that may be a hazard."

If you have control over the exterior of your building, consider what changes you can make on the outside to strengthen your image. Perhaps a coat of paint, the addition of shutters or awnings, or a new sign will do the job.

"The single most important word for small businesses when thinking about their visible self is 'refresh,'" says Darrel Rippeteau, of Rippeteau Architects, P.C., in Washington, D.C. "It's important to look at a business as constantly renewing itself. You don't want people to think your business is stagnating, just because your offices are."

Even if you are in an industrial-type building, you can make changes to maxi-

PHOTO: T. MICHAEL KEZA

An attractive, contemporary interior design *helps Lockheed Environmental Systems and Technologies project itself as a dynamic and professional company.*

mize your image, Rippeteau says. "Focus on the entrance and let the rest of the facade recede, perhaps by painting it one neutral color or a darker shade. Use the entrance to make a show of what your company is." In a retail store with no windows, for example, Rippeteau made a large, arched opening at the front entrance, which brought in needed light and also gave the entrance greater importance.

"Businesses should consider anything that will set the scene for customers coming in, that will help put them in a better frame of mind."

—Mark Zettel,
Azalea Acres Nursery
And Landscaping

If the customer area of a business such as a restaurant is on the main level of a townhouse or residential-looking building, put curtains and electric candles in the upper windows to carry the mood across the entire exterior. Remove stacks of boxes or other miscellaneous items that might be visible from outside.

It's especially important for retailers to be recognizable, Rippeteau says. Use logos or motifs, exterior colors, or other elements to achieve an outward appearance that will automatically tell people who you are and what you do.

Whenever possible, use imagery that is related to the goods or service you sell, such as Roman-style columns for a shop that sells expensive Italian shoes, or a stadium motif for a store that specializes in sporting goods.

"Particularly if you have just one location," Rippeteau says, "you have to keep your property up, paint it, and clean it. Keep it fresh. Have good hardware on the door and good flooring in the foyer." Use bright lighting, but make it soft, and be sure the space is well-ventilated.

"As you evaluate your business premises," he says, "try to get a feel for the things that happen to your customers as they cross the threshold."

Flowers, plants, and trees go a long way toward enlivening the exterior of any business. They can bring color to a bland storefront, block the view to unattractive areas or neighboring businesses, or soften a building's harsh appearance.

"Businesses should consider anything that will set the scene for customers coming in, that will help put them in a better frame of mind," says Mark Zettel, president of Azalea Acres Nursery and Landscaping, Inc., in Fairfax Station, Va.

"The glaring mistakes I see by businesses are no use of color and using all one type of plant or shrub." Plant trees and shrubbery, and use as much color as possible, particularly with annuals, Zettel advises. To add interest, use plants of varied heights and textures.

"I find that in most shopping areas it's all macadam and asphalt, and the building materials are stark," Zettel says. "If you are in an area with a lot of concrete, use $2\frac{1}{2}$-foot-high shrubs to form a screen for the parking lot and to soften the appearance of the building."

If you have outside entrances, use decorative containers, such as sidewalk planter boxes, for plants and flowers, Zettel says. These are eye-catchers that create the illusion of a forest or a comfortable place, he says. In winter, when color in plants is hard to come by, use conifers, which do well in most climates and require less maintenance than do most other plants.

As you begin to take stock of your business premises, consider what needs to be done and establish a budget, regardless of the size of the job. If you're working with an interior designer, be clear about what you want to spend, Sandy Lucas advises. "The designer can tell you if it's realistic and help you develop a line-item budget." If you are on a strict budget, she says, consider creating a long-range plan to improve your company's look a little each quarter or each year.

Also, make an inventory of the things you can do yourself at little or no cost. Take note of disheveled magazines, rug stains, illegible signs, outdated notices, dirty countertops or cash registers, unsightly or nonworking vending machines, and yellowed clippings taped to your business's walls.

If you want to display framed awards, create a wall just for awards so they don't detract from your design. Have them reframed if necessary, and group them in an attractive montage.

If you do give your business a face-lift, carry it over into promotional materials. Get a new business card and stationery using the new logo you designed for your storefront, or simply change to a different design and typeface. To reinforce the new image, consider adding a sketch of the new facade or, if you have just moved, the new building. Carry it over to your company's fleet of vehicles.

Remember to check your business periodically for signs of a tired appearance. "Once you've renovated a space," says designer Lucas, "don't let that newness wear off." Customers notice. NB

Small-Business Computing

Buying a computer doesn't automatically turn you into a designer. Sometimes it pays to consult a professional.

By Ripley Hotch

Refined Desktop Publishing

Gary Leavelle used several software programs before he bought PagePlus to meet the desktop publishing needs of his bicycle and skate store, Las Colinas Bike & Fitness, in Irving, Texas.

PagePlus, which runs under Microsoft's Windows, had the features he needed to produce direct-mail advertisements and newsletters for customers and in-store signage, he says. Moreover, the program, by Serif Inc., of Nashua, N.H., cost only $59.95.

Leavelle honed his desktop publishing skills by reading trade magazines and taking continuing education courses because, he realized, "buying a program doesn't instantly make you an artist or a graphic designer."

Because he is still aware of his limits, Leavelle contracts with professionals to publish complicated pieces. There comes a time, he says, when penny-wise is pound-foolish: "I'm pretty cheap, so I can justify in my mind doing it myself, but there are times when it is cheaper to go to a professional."

Leavelle's experiences with desktop publishing demonstrate two rules that generally apply to most small-business owners who are about to launch a newsletter, advertising campaign, or other ongoing publishing program:

■ You can find the needed software at a relatively low price, but a larger investment in reading, practice time, and, possibly, schooling will be required to produce documents that attract more people than they put off.

■ When the publishing is really complex, it usually makes sense to obtain the services of a professional.

Several years ago, when computers and laser printers powerful enough for desktop publishing became affordable, many small-business people became enthralled over becoming their own publisher. While the computer industry fed this excitement with promised savings of time and money, early desktop publishing documents often were less than exciting.

But desktop publishing software has made substantial advances in the past few years, and many programs really can save your business time and money—if you learn to use them correctly. Furthermore, most of today's entry-level desktop publishing programs offer online tutorials that can help you avoid producing publications that are embarrassing.

Right now, almost all current Windows-based word processors enable you to crop and enlarge or reduce graphics, provide adequate typographical control, and make it easy to print out anything from invoices and sales reports to books. Most also include drawing tools and templates for newsletters and other documents that once were the domain of specialized desktop publishing software.

So our first piece of money-saving advice is to take a close look at your word processor to see how far you can take it before buying additional software.

When will you exceed the capabilities of your word processor and need a full-scale desktop publishing program? In most cases, it depends on the level of control you desire. Desktop publishing software generally yields a much higher quality of typography than word processors.

You'll find that desktop publishing documents look better than word-processing output, especially with justified type. Moreover, desktop publishing programs are more precise than word processors. For example, the programs allow you to skew type and graphics and insert large capital letters at the beginning of text for a professional look.

Overall, today's desktop publishing pack-

Contributing Editor Jon Pepper supplied information for this report.

PHOTO: STEVE WOIT

Consider having an expert *handle external publications, says Heidi Waldmann, owner of Eureka! Designs.*

Matching Fonts

One of the most annoying problems for personal-computer users is handling typefaces. Matching the fonts you see on screen with those actually produced by your printer can be maddening, especially as do-it-yourself publishers add more and more unusual fonts to their systems. Fonts also take up a tremendous amount of room on hard drives and in memory.

Another problem is that documents can become a horror show when inexperienced users throw together unrelated and clashing typefaces.

A utility program called Font Works, from ElseWare Corp., in Seattle, solves these problems neatly. It offers 150 different fonts, manages typefaces in your system, and offers an Advisor utility that suggests which fonts work together in your documents. There's nothing else like it on the market—so far. Font Works lists for $129.95. For ordering information, call 1-800-ELSEWARE, or 1-800-357-3927.

PHOTO: ©NANCY PIERCE

Bookstores and seminars *offer affordable resources on desktop publishing, says computer artist Lou Kinard.*

ages bring to the PC or Macintosh capabilities that were beyond the reach of even the most expensive professional equipment five years ago. In-house PC or Mac-based desktop publishers can now contemplate producing not only small brochures, newsletters, business cards, greeting cards, and reports but also high-end, full-color sales material, catalogs, company reports, and books.

Desktop publishing "is a unique revolution in the printing industry," says Eugene Barnes, who works in electronic-publishing technical support for Allen Press Inc., of Lawrence, Kan. "For the first time, the tools required for typesetting, pasteup, illustration, layout, etc., are actually affordable. A desktop computer, laser printer, and the required software to do the job cost roughly a tenth of what a former 'professional' system would have cost." Now you can spend as little as $4,000 to $5,000.

If you are ready to take the step beyond word processing, decide if you want the low-end or high-end program. On the lower end, we recommend version 2.0 of Microsoft's Publisher for Windows or Serif's PagePlus. On the high end, we recommend either Aldus Corp.'s PageMaker or Quark Inc.'s QuarkXPress. Both programs are available in Windows and Macintosh versions. Just be sure to pay careful attention to the hardware requirements for the more powerful packages.

The important issues for the business person contemplating any kind of publishing are budget, audience, time, and cost. "When you are going to do documents for internal use, it's no big deal; do it yourself," says Heidi F. Waldmann, who owns Eureka! Designs, a design firm in St. Paul, Minn. On the other hand, says Waldmann, "For sales materials or publications that go outside, and are important to your image, it would behoove you to use the services of those who know what they're doing." You can even hire a professional as a tutor.

Above all, don't assume that buying a program will make you an instant expert. "There is more room for error as untrained people believe the ads and think a few mouse clicks get the job done," says John Cornicello, editorial director for Thunder Lizard Productions, a Seattle company that puts on conferences nationwide on using high-end publishing tools such as Aldus' PageMaker, Adobe Systems Inc.'s PhotoShop, and Quark's QuarkXPress.

For jobs that you can do on your own, take time to educate yourself to avoid costly mistakes. Lou Kinard, a computer artist at Midnight Sun Foundation, a Charlotte, N.C., company that does design, illustration, and photography for public agencies, says inexpensive resources can help. "Go to a bookstore and buy yourself a book on layout," she advises. "There are some classes—check with [computer] hardware dealers, and they can tell you about them. Quickie afternoon seminars are absolutely worth your time and effort."

Moreover, it is not too expensive to hire a designer to help you with work that will be handled by a professional printer. The services of a designer can save you far more than his or her cost when it comes to matching colors, choosing appropriate papers and inks, deciding what will go through the mail, and so on.

"One of the best routes to take in converting to desktop publishing is to initially send all the work to free-lance desktop publishing entrepreneurs working at home on their own computers," says Don McCahill of Gallimere Graphics, in Gallimere, Ontario. "This can result in partial savings over sending work out to printers or typesetters."

Other hidden costs are tied to extra hardware needed to run a full-scale publishing operation and the continuing cost of upgrading software. For high-end publishing work, it might be best to take the work to a professional designer-typesetter or to add such a professional to your staff. For companies that do a considerable amount of publishing work—four-color catalogs, for example—the latter course may be the most cost-effective. NB

Setting Up A Publishing System

For myriad design reasons, setting up a publishing system has always been easier on an Apple Macintosh than on an IBM-compatible personal computer. The Mac operating system software has always been easy to use, and setting up a Mac peripheral device is a simple matter of plugging it in and telling the computer that you have a new printer, scanner, or whatever. This convenience has come at a high cost, but, with its new Power Macintosh, Apple is making an effort to bring prices down to the PC range.

With the ongoing refinement of Microsoft Windows, PC users have been able to acquire Mac-like ease of use at far less cost. To date, PC buyers have had to pay for their bargains another way: innumerable hardware compatibility hassles. Nevertheless, emerging "plug-and-play" standards soon may make PC hardware as easy to install as Mac peripherals.

If you choose to make a PC your desktop publishing platform, designate a computer with no less than an 80486 microprocessor and 8 megabytes of random-access memory (16 or even 32 megabytes would be better). If you go the Mac route, you'll want at least a Quadra 650 (preferably a Power Mac) and a large hard drive (nothing less than 200 megabytes, but 500 would be better). Expect to pay about $2,500 for the Quadra 650 or the Power Mac.

For either system, you will need a high-quality laser printer (the most popular is the Hewlett-Packard LaserJet 4 series, with list prices beginning at about $1,200) and a scanner for inputting images (at a discount retail price of under $1,000, Epson's ES 800C is an excellent choice).

Because the Kodak photo compact-disk format has become standard among publishing service bureaus, a CD-ROM player is becoming a necessity. Macs come with one; it is becoming standard on PCs as well.

If you aren't an expert, and if you decide to take the PC/Windows route, you would do well to have a professional put your system together and test it thoroughly to make sure it works.

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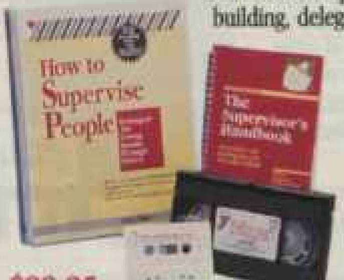

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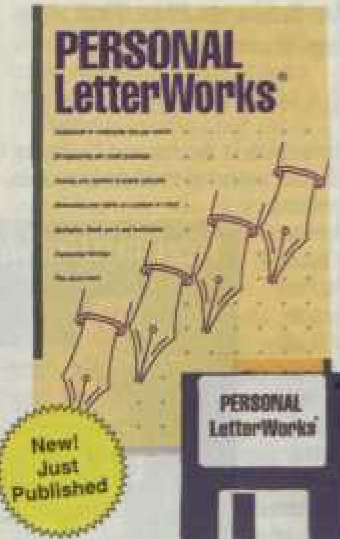

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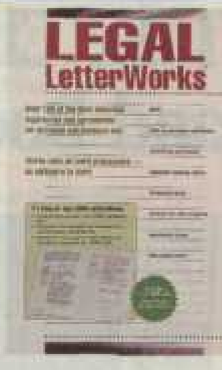

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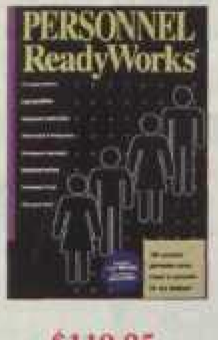

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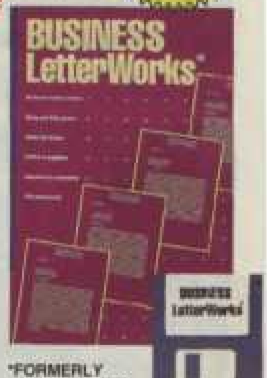

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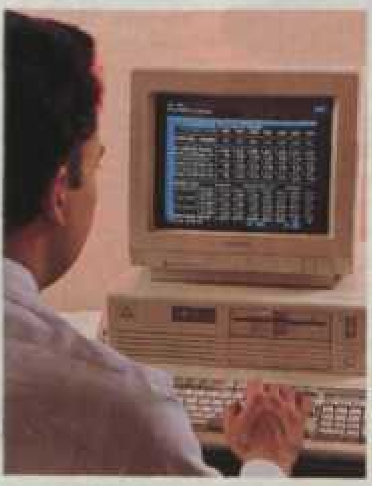

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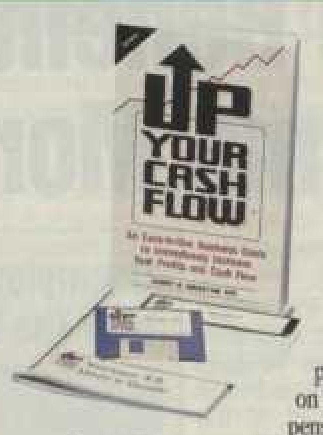

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TAXATION

Jobless Benefits Cost Firms More

These suggestions can help you keep your unemployment-insurance costs down as states increase rates to replenish benefit funds.

By Dawn Kopecki and Roger Thompson

Employers across the country will see their unemployment-insurance taxes rise again this year as many states continue to rebuild insurance funds depleted by the impact of the 1990-91 recession and ongoing corporate downsizing.

In most states, tax increases will not level off until next year, when fund balances will reach minimum acceptable levels, says Ron Adler, president of Laurdan Associates Inc., a consulting firm in Potomac, Md., that specializes in employment issues.

States have been forced to pay out more in unemployment-insurance benefits than they've collected in payroll taxes to finance the program in recent years because millions of Americans have been thrown out of work in the aftermath of the recent recession and corporate restructuring.

The rapid shrinkage of fund balances caused many states to raise their unemployment-insurance payroll taxes sharply. On average, unemployment-insurance taxes have risen 15 percent nationwide since they hit a five-year low in 1991 of $182 annually per employee. In 1993, the national average rose to $210.

But the average masks steep increases in Eastern and Western states hardest hit by the recession and corporate restructuring. For example, the average unemployment-insurance cost per employee in Rhode Island rose from $416 in 1991 to $633 in 1993. In Massachusetts, the average cost rose from $315 to $477; in California, $196 to $308. (See the chart at the right.)

Workers are eligible for unemployment-insurance benefits if they lose their jobs through no fault of their own, such as through layoffs or an inability to perform required tasks.

According to data from the Department of Labor, 10.5 million workers filed for unemployment-insurance benefits in 1993, and 7.4 million actually collected. The percentage of claimants who actually received benefits ranged from a high of 99 percent in Minnesota to a low of 49 percent in Virginia.

Each state calculates its own unemployment-tax rate by examining actual claims paid over a three-year period, excluding the most recent year. Thus, today's rates are based on claims paid during the 1990-92 period, which included the recession.

Dawn Kopecki is a free-lance writer in Washington, D.C.

Unemployment Taxes: How The States Compare

	Average UI Tax Per Employee*	Percentage Of Claims Approved
Alabama	$184	76%
Alaska	520	84
Arizona	161	69
Arkansas	311	69
California	308	66
Colorado	196	66
Connecticut	297	76
District of Columbia	416	71
Delaware	277	95
Florida	182	71
Georgia	192	69
Hawaii	295	77
Idaho	402	89
Illinois	281	63
Indiana	140	67
Iowa	266	77
Kansas	248	76
Kentucky	224	75
Louisiana	218	63
Maine	322	77
Maryland	303	74
Massachusetts	477	78
Michigan	446	74
Minnesota	313	99
Mississippi	203	59
Missouri	252	59
Montana	259	83
Nebraska	140	75
Nevada	278	81
New Hampshire	210	81
New Jersey	249	70
New Mexico	245	64
New York	392	77
North Carolina	181	57
North Dakota	232	78
Oklahoma	181	61
Ohio	303	70
Oregon	524	80
Pennsylvania	440	78
Rhode Island	633	80
South Carolina	182	61
South Dakota	91	64
Tennessee	196	62
Texas	173	68
Utah	213	79
Vermont	272	91
Virginia	152	49
Washington	482	79
West Virginia	296	79
Wisconsin	287	91
Wyoming	289	62

*Unemployment-insurance taxes are paid entirely by the employer.

SOURCE: LAURDAN ASSOCIATES INC., POTOMAC, MD.

Because of the recession, many states depleted their unemployment-insurance fund balances below the minimum prescribed by state law. When that happens, states typically increase the unemployment-insurance tax rate, or raise the taxable wage base, or impose a supplementary tax. No matter which remedy a state chooses, the result is the same: Employers pay higher unemployment-insurance taxes.

The unemployment-insurance system originated during the Depression and created a federal-state system to provide temporary, partial wage replacement for workers who lose their jobs through no fault of their own.

States set their own minimum and maximum tax rates, but they must apply the rates to a taxable wage base set by federal law. The law sets a minimum taxable wage base of $7,000, but it gives states the flexibility to use a higher base. Twelve states used $7,000 as the taxable wage base in 1993; 20 set the base at $10,000 or more. Hawaii had the highest taxable wage base last year, $23,900; next was Alaska, with $23,200.

While employers have no control over unemployment-tax increases resulting from recession and corporate restructuring, they can take steps to minimize the potentially costly effects of unemployment-insurance claims. Failure to carefully monitor claims filed by former employees can result in an employer's paying too much in unemployment-insurance taxes.

Like workers' compensation, unemployment insurance is experience-rated. That means the more claims former employees file for unemployment benefits, the higher an employer's tax rate goes above the state minimum.

While most people filing for unemployment insurance have been laid off and are eligible for benefit payments, a significant number are not. An estimated 15 percent of all who receive benefits are not qualified because they were fired for just cause or quit voluntarily, says Tom Stengle, an analyst for the unemployment-insurance service at the U.S. Department of Labor.

Failure to contest claims made by

employees who have quit or were fired can send an employer's unemployment-insurance costs soaring.

Typically, employers first learn that former workers have filed for benefits when a claim form arrives from the state unemployment-insurance office. The form requests information on the employee's separation from the company and gives the employer a chance to request a hearing to contest the claim.

When an employee is fired, the burden of proof is on the employer to show that the separated employee should not receive benefits. For example, an employer must show that an employee who was fired for violation of company rules actually knew about the company policies. Ignorance of a company's work rules is typically an acceptable defense. Thus, employers should issue policies in writing and require each new employee to read and sign a copy during the first day on the job.

Employers should also have written procedures for notifying employees of misconduct, and they should document warnings. Documentation is the key to winning a case or lessening a former employee's benefits. A paper trail of spoken and written warnings, suspensions, or other disciplinary measures must be available to justify an employer's actions.

Timely response to claims notices is as important as keeping good records. Even if a former employee is ineligible for benefits and the company keeps the records to prove it, the state unemployment office may approve the claim if the employer doesn't respond within the time limit specified in the claim form.

While ignoring a claim form may seem harmless at the time, the repercussions can be serious. "Don't treat unemployment claims lightly, because the result could be used against you," says consultant Adler. According to a study that his company conducted for the Maryland Chamber of Commerce, unemployment-insurance claims are increasingly followed by civil court claims of wrongful discharge, discrimination, or sexual harassment, or all three. For example, an employee fired for a violation of company policy may subsequently file a lawsuit claiming racial discrimination.

If the same employee files a claim for unemployment-insurance benefits, the employer must present evidence showing that the worker was fired for just cause.

Clearly, employers without written company policies and documentation of employee misconduct fight an uphill battle when contesting unemployment-benefits claims. The price they pay is in higher unemployment-insurance taxes, while making themselves a tempting target for lawsuits. NB

Temps' Unemployment Claims

Temporary-worker companies are trying to eliminate an abuse of the unemployment-insurance system by a number of workers in that industry.

Employment experts say that many temporary employees work just long enough to qualify for unemployment benefits.

"You have people who have figured out the system," says Christina Peters, a manager for GatesMcDonald, an employment consulting firm in Columbus, Ohio. "They know more about unemployment insurance than probably the people in the unemployment offices do."

PHOTO: T. MICHAEL KEZA

Thorough record keeping *helps Pam McComas' temp firm win appeals of ineligible unemployment claims.*

Joe Papier, director of unemployment-compensation management services for Automated Data Processing Inc., a payroll and unemployment consulting firm in Roseland, N.J., says: "It's amazing how many times we'll have the same claimant trying to collect unemployment. It's a pattern; they know how to milk it."

To combat abuse, the temporary-employment industry is lobbying states to pass a model law that would make it more difficult for temporary workers to claim unemployment benefits to which they are not entitled.

An estimated 70 percent of all temps work enough to be eligible for unemployment benefits, according to the National Association of Temporary Services (NATS), a trade group in Alexandria, Va. Typically, a temp must work in two calendar quarters during a year to become eligible for benefits. Earnings eligibility requirements vary greatly from state to state.

On average, about 14 percent of a temp agency's work force files for unemployment every year, says Peters.

Most states treat temporary and full-time employment the same when it comes to awarding unemployment benefits. A temporary employee who completes one job and is told no further assignments are available can file for unemployment-insurance benefits. NATS maintains, however, that many temps voluntarily quit by failing to report to the agency for a new assignment, and then, in numerous states, apply for and receive unemployment-insurance benefits.

To eliminate this abuse of the system, NATS is promoting a model law designed to ensure that temps who voluntarily quit their employment or fail to request a new assignment cannot collect benefits.

The model law simply provides that a temp must contact the temporary-help agency for reassignment upon completion of a job; a temp who did not contact the agency would be deemed ineligible for benefits.

The model law has already been adopted by Colorado, Florida, Illinois, Minnesota, Montana, Texas, and Wisconsin. Temporary-help agencies in those states have cut their unemployment-insurance taxes because they are no longer paying benefits to individuals who choose not to work, says NATS.

In states without laws based on the NATS model, employers must pay close attention to unemployment claims. In Maryland, for example, temps may turn down an assignment, fail to show up for one, or simply walk off the job, and they still can file for unemployment-insurance benefits, says Pam McComas, executive vice president of SES Staffing Solutions, in Pikesville.

McComas estimates that 10 to 15 percent of the temps who work for her Baltimore-area agency file for unemployment benefits every week. McComas says she contests a majority of these claims and wins 80 percent of the cases. "We're winning a lot of our appeals because we're so diligent" in keeping records on each employee, she says.

The result has been an estimated savings of about 50 percent each year in premium costs for unemployment insurance, says McComas.

Maryland officials estimate that temp agencies in the state would save $6.7 million a year in unemployment-insurance taxes if the NATS model law was adopted there.

—Dawn Kopecki

Family Business

Making a fruitful transition; instilling discipline in the next generation; grieving after a son's overdose.

OBSERVATIONS

Is There Life After Family Business?

By Sharon Nelton

"I used to be a hard-driving businessman, but then something happened to me." That's how Richard L. Haid of Hamilton, Ohio, opens his doctoral dissertation.

Haid inherited and expanded his father's insurance agency. But after 30 years of working "voraciously" in the company, he grew bored: "I wanted more. I wanted out."

At age 57, in 1988, with no family member to take over, he sold the agency and spent the next year "inventing my new future." He entered a Ph.D. program at the Union Institute in Cincinnati to find a way to help what he calls "third-quarter-of-lifers" (like himself) answer the question, "What am I going to do with the rest of my life?"

He decided to focus on the unique problems of family-business leaders as they face retirement (a word he avoids because family business CEOs "equate retirement to euthanasia"). His dissertation is a study of the personal transition of 10 people, between the ages of 60 and 80, who stepped down as CEOs of family firms.

Family-business CEOs, he suggests, have a more difficult time stepping down than nonfamily CEOs because they often control the ownership of the business and tend to hold the reins for a longer period. Often, they are the founders or successors, and their identities are more intertwined with their companies.

Haid, who identifies himself as an "adult mentor" and now leads workshops to help family-business CEOs and others create their own new futures, found all of his subjects (nine men and one woman) to have a high satisfaction with life.

"They have good relationships with their spouses, children, and grandchildren," he writes. "They do a lot of family-related activities. Nine of the 10 take special trips and vacations with their grandchildren. They are doing much grandparenting."

Here, for CEOs, are some of the recommendations from the study:

■ Start exploring what you will do with the rest of your life. Dream great and different dreams. Consider how you can expand leisure interests or find new ones.

■ Look for ways that you can be more caring and compassionate. This can help you tap more of the richness of life as you return some of what you have received.

■ Become a mentor for family members and others in the business. Develop an attitude that it's all right if your advice is not acted on.

■ Listen to the wake-up calls from your body, for your own well-being. Health does change, but you can make lifestyle changes now that will make it possible to enjoy many years of active living.

■ Write not only a company history but also your personal history to discover that there is a lot more to you than your part in the company history.

In reviewing your personal history, Haid says, you can expect to find "achievements to be celebrated, conflicts to be resolved, and hopes that still have some power and relevance. These can help guide you as you invent the next chapters in your life."

And his final conclusion: "There can be a long and vibrant life after family business if you apply for it now and take action to collect your benefits."

For more information on Richard Haid's research or workshops, contact him at 157 E. Fairway Drive, Hamilton, Ohio 45013; (513) 868-1488. ■

PLANNING

Coping With The "Silver Spoon Syndrome"

By Craig E. Aronoff and John L. Ward

It is a cliché well known and widely accepted. Children raised in affluence, it is said, lack the drive (or discipline, character, work ethic, common sense—substitute your own word or phrase) to successfully run the businesses their parents founded or developed.

Some call this the "silver spoon syndrome." Others label it "affluenza." It's a condition that sometimes abets the older generation's fears about the next generation.

We've had the opportunity to know many family-business leaders who, despite privileged upbringing, are energetic, disciplined, ethical, and smart. In other cases, we have observed the generalization to be true. The risk of "silver spoonism" is real.

Suspended by the invisible bonds of wealth, certain young people's feet never do quite touch the ground. A result is a sense of reality that differs from established norms in ways unsupportive of business leadership. Those affected cannot achieve Rudyard Kipling's standard of being able to "walk with kings and keep the common touch."

How can you know whether the next generation's perspectives have been distorted? It is not easy to reach a conclusive diagnosis, but the best way to gain

PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

insights is to listen carefully to what your relatively mature children are saying about themselves, their careers, their relationships with other people, money, and the family business.

One of the hardest things for young family members to do is assess objectively their own strengths and weaknesses. Being able to do so is a critical dimension of business and family leadership. The skill is difficult to acquire under the best of circumstances. When you are the known potential chief executive officer, however, honest and objective feedback is extremely difficult to get, and on the rare occasion when you do get it, you are likely not to hear it.

We urge family-business leaders concerned about the development of their children as successors to examine carefully their children's ability to be objective in evaluating their own strengths and weaknesses.

Also listen to their appraisal of the causes for any frustrations or problems. Young people having a hard time maintaining balance and perspective consistently blame forces outside themselves for negative results. They also perceive lots of "unfairness" in systems that don't produce desired results.

A related symptom of the syndrome is the tendency to focus on personal goals and desires over what's best for all. For example, the goal of being a director of the family business can take precedence over the matter of determining appropriate and desirable characteristics of board members. Winning points in arguments about strategic direction becomes more important than determining appropriate strategy.

Cause and effect can also become confused by those out of touch with reality. Most successful family-business leaders work very hard to give nonfamily employees the credit and rewards they deserve as a function of their efforts. They carefully explain to family members that their success depends on the willingness of employees and nonfamily executives to commit themselves to the family's asset. Occasionally, we run into young family members who have lost this perspective. "I'm a *Smith*," they say in word or deed. "I can do as I please [or fire you or have my way]."

One member of a rising generation was displeased with an opinion put forth by a key nonfamily executive. The family member's assessment: "The nonfamily employees don't show the owners who work in the business enough respect and appreciation."

Pay careful attention to the motives of younger family members as they aspire to positions in the family business. If their ambitions are obvious, ask them why they want to be named an officer, director, or trustee. Listen to their answers. We've

ILLUSTRATION: DAVID CHEN

seen many situations where young people crave titular recognition in the business as a way of gaining family love or approval. When this is the situation, disappointment can have dramatic repercussions.

Finally, loss of perspective and discipline about money can be an obvious problem. Those who have left the reality that most of us operate under begin to think of money received from the family as "deserved" and are usually willing to conclude that they don't get as much as they merit. The economic discipline of making choices eludes them, and, as a result, no amount of money can seem to be enough. Budgets are for others.

What to do when you see members of the next generation exhibiting such attitudes? Some parents write off such young people as not having leadership potential. Others simply hope that time and the greater maturity it fosters will add perspective.

We are most impressed with families who take on these issues with early and continuous education, and with family discussions of desirable and mature approaches and values. We recommend sincere efforts to give meaningful and objective feedback to all family members on their progress and development, and to provide mentors who can frankly discuss with members of the next generation how others might perceive their beliefs and behavior.

We are sure, however, that the silver spoon syndrome is not inevitable. Affluenza is treatable, reversible, and only occasionally fatal. Real sensitivity is required to recognize the condition, and parents (and grandparents) need deep patience and commitment to help younger family members overcome it. ■

MARK YOUR CALENDAR

Aug. 24, Charlotte, N.C.

"Transfer of Management and Ownership in the Family Business" is a daylong seminar featuring corporate psychologist Sam H. Lane. Contact John Powell, Director, North Carolina Family Business Forum, P.O. Box 2888, Burlington, N.C. 27216; (910) 226-1380.

Sept. 20, Ann Arbor, Mich.

"Family Business Succession Planning: The Human Aspects" is a seminar for family-business owners and managers. Contact Sullivan & Sullivan, 455 E. Eisenhower Parkway, Suite 210, Ann Arbor, Mich. 48108; (313) 769-8000.

Sept. 22, Dallas

"The Complexities of a Family-Owned Business: A Case Presentation" is a meeting sponsored by Baylor University's North Texas Family Business Forum. Call Nancy Upton at (817) 755-2265.

Sept. 28, Houston

"Managing Family Relationships in the Family Firm" is a seminar presented by Baylor University's Houston Family Business Forum. Call Nancy Upton at (817) 755-2265.

Oct. 5-8, Scottsdale, Ariz.

"Challenging Assumptions" is the theme of the annual conference of the Family Firm Institute, an association of family-business owners and professionals. Call Lenny Fogel, the institute's marketing director, at (617) 738-1591.

Oct. 9-14, San Diego

The Family Business Leadership Program is for next-generation family-business members. Call Kris Downing of the Center for Creative Leadership at (910) 545-2815.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

CASE STUDY

Death By Drugs—And Denial

John and Simone Holt are devastated. Jesse, their oldest son, their hope for the future of their $20 million printing business, died recently. He was found unconscious by his wife in the bathroom. Later, in the hospital, the family was told that he had overdosed on drugs. He was 34.

During the months after Jesse's death, as the shock and grief have diminished, John and Simone have asked themselves how this could have happened. Why did he use drugs? Why didn't they notice? How could they have helped him? Could they have prevented his death? They worry about Jesse's wife and child. And they wonder what will happen to the family business.

Until Jesse joined Holt Printing, it was just a small print shop. Jesse, who headed sales and marketing, took the company into new areas of service, such as multicolor printing and high-scale embossing. He developed new customers, including large corporations and clients in other states. He was well-known and well-liked throughout his local business community.

Jesse was the visionary in the family and the business. His energy, enthusiasm, and high profile were important to the expansion of the company. "No one can replace him," insists John, who is 59.

The Holts don't know what to do next. They are wondering if they should try moving one of the younger children—Sean, a sales representative, or Tim, a production worker—into Jesse's role, or whether they should hire an outsider. But they ask, "How can we trust our own judgment, when we couldn't even see our son's addiction?"

ILLUSTRATION: DAVID CHEN

Have Courage To Open Your Eyes

John and Simone are suffering—suffering from the loss of their son and the fear and concern they have for their family and their business.

But they are also suffering from denial and overdependence.

Families often have an incredible ability to overlook chemical dependence. "Not my child," parents say. "He would *never* do that." Yet nearly one out of every three families in the United States has someone suffering from alcohol- or drug-related problems. And at least the same share of family businesses has been affected—overtly or covertly—by substance abuse and addiction.

Often, the decline of a loved one's performance, the person's erratic behavior, and the increasing use of alcohol or drugs are excused by family members. "We all drink a lot in this family; it's part of our heritage," they may say. Or: "His work is very demanding, and he travels a lot, entertaining customers. It all requires social drinking." Or, "I suspected he might have a problem, but he denied it."

The Holts closed their eyes not only to Jesse's use of drugs but also to their own excessive dependence on one person for leadership, marketing, and customer relationships—the lifelines of the business. It is easy to accept the drive and energy of a young, ambitious person and fail to consider what could happen if he or she were no longer there.

Denial and dependence can be devastating to businesses and to families. John and Simone now need the courage to look closely and objectively at the needs and resources of their family, their business, and themselves. They would benefit from outside counsel to help them understand the family aspects of drug use as well as to plan for the future of the business.

PHOTO: ©MICHAEL SCHWARTZ

Leslie Dashew, president, Human Side of Enterprise, in Atlanta, and an associate of the Aspen Family Business Group.

Take Time To Sort Things Out

A tragic, unexpected, and sudden incident has occurred that affects each person individually, the Holt family as a whole, and the business. It is a time of pain, grief, confusion, and uncertainty on all fronts.

It is easy during a period like this for emotional responses to influence important decisions about the business. John and Simone need to allow enough time to gain as much perspective as possible regarding what has happened with Jesse before they attempt to make any far-reaching plans.

Most likely, the family can wait six to nine months without taking major action. At that point, the whole family should sit down together and assess the situation and explore available options. Each person should address his or her own personal goals and views about the future of the business.

Open and candid communication will be necessary. The family should acknowledge that it needs a new guiding force.

The replacement model could take several forms. One promising possibility would be to bring in an experienced outsider to run the business and to coach Tim and Sean until they are able to take on more-senior leadership roles. Or possibly John could step back in and assume this function with the support of some outside consulting help.

Depending on the numbers, selling the business should also be explored. It would be a mistake for the family to plow forward with the business because of guilt feelings or a false sense of commitment if the desire and willingness are not strong.

I would encourage the Holts to dispel the notion that no one can replace Jesse, or that they can't pick up the pieces because they didn't know what he was doing. It will be difficult, but they can and must go on.

PHOTO: ©JOHN R. FULTON JR.

Sam H. Lane, a corporate psychologist experienced in family business and president of LBF & Associates, Inc., a consulting firm in Fort Worth, Texas.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute. Identities are changed to protect family privacy. This month's editor is Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. The authors' opinions do not necessarily reflect the views of the institute.

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MANAGING

The Growing Appeal Of Telecommuting

Why the private and public sectors are trying to have more employees stay out of the office.

By Roberta Maynard

For two decades or so, telecommuting, or teleworking, has been little more than an occasional exception to the rule. Supervisors have worked out informal arrangements with individual workers, usually because an employee has a particular need to work from a home office or other location for part or all of the work week.

But now the concept is gaining greater acceptance among employers as more companies—small and large—and state, local, and federal governments have begun to explore teleworking.

One motivation is the need to reduce traffic congestion and improve air quality. Amendments to the Clean Air Act are pressuring employers in some regions to limit employees' work-related use of vehicles. (See "Clean Air Act's Car-Pool Mandate," in the April issue.)

On the horizon, though, are other, more far-reaching goals. "I think that telecommuting is going to have a place in the future in solving fundamental societal problems that won't disappear," says Faith Wohl, director of the federal Office of Workplace Initiatives. "Workers' long commutes are robbing the country of productive time. That time can be put back into the community, the family, and other activities. Teleworking can help people simplify their complex lifestyles and reduce the stress caused by commutes that in some areas are as long as two hours each way."

A contributing factor to the growing interest in telecommuting is downsizing, which has companies focusing on saving money and reducing overhead. Large companies such as IBM are freeing up floors of expensive office space as they let workers produce results from other locations. Best Western, AT&T, Du Pont, Pacific Bell, American Express, and scores of other companies have developed telework programs in recent years.

Among local jurisdictions, Denver's city and county governments began a telework training program for their employees two years ago. Now, more than 150 government employees in Colorado work at home at least one day a week, or on a project basis.

Telework managers in Denver and elsewhere are encouraged by program results that show that teleworkers are at least as productive at home as they were at the office. Judy Rapp-Guadagnoli, manager of Denver's telecommuting program, says, "We've found that, rather than slacking off, they're more productive because they are working right there at their [home computers]." Teleworkers abide by managers' rules, she says, because they don't want to jeopardize their job situations.

In metropolitan Phoenix, a telework pilot program was launched in 1990 for employees of the regional transit authority. Since then, coordinators from 500 area businesses have been trained in developing their own telework programs. By 1993, 11 percent of the area's work force—some 100,000 workers—were telecommuting at least one day a week, resulting in a savings of about 1.8 million miles of travel daily, according to John Corbett, telework program administrator for the state of Arizona. In that area, teleworking has increased and is now second only to carpooling in frequency of use.

PHOTO: PATRICIA LANZA

Studying business's attitudes *about telecommuting is Van Romine, at a telework center in Ontario, Calif.*

The Washington State Energy Office spent 18 months helping 25 companies set up telework programs. A result is a hands-on manual for businesses to use in implementing programs and training personnel. (To order the two-volume binder set, *Telecommuting: An Alternative Route To Work*, call the Energy Office at [206] 956-2055. The cost is $50.)

A significant trend began in Hawaii, where the first telework center was developed through a public-private joint venture. Telework centers—or telebusiness centers—have been established throughout the country to keep workers closer to home, thereby reducing their commuting to and from distant offices. Telecommuters use the centers to hold client meetings, do paperwork, complete reports, or make telephone calls.

Work space ranges from cubicles to private offices, which can sometimes be leased for as short as an hour. The centers are equipped with computers, modems, copiers, printers, and sophisticated phone service. Other services may include videoconferencing and secretarial support.

The federal government is exploring the advantages of telework centers through its new Office of Workplace Initiatives in the General Services Administration (GSA). With a $6 million authorization from Congress, the government has set up four pilot telework centers near Washington, D.C.

The program is aimed at improving the government's ability to recruit and retain employees, to improve employees' quality of life, and to reduce federal operating costs. It was initiated after a study of 700 federal workers nationwide who had telecommuted for a year showed signs of improved work performance and reduced use of sick leave.

The Los Angeles earthquake in January prompted the GSA to expand its telework program to the West Coast. Two weeks after the quake, the federal government set up three centers to provide work areas to employees who couldn't get

to their offices because of damaged freeways.

In the weeks that followed, federal managers discovered another benefit to keeping employees closer to home. Not only could the teleworkers make better use of their time than they would sitting idly in traffic, they were also more accessible to "customers" in their areas. In fact, says the GSA, success with these initial efforts from a customer-service standpoint could lead to a major decentralization in some areas that will move government services back to communities and away from the large regional offices in use today.

Now, the GSA is looking for cost-effective ways to make telecommuting possible for more of its workers in Los Angeles, home to more than 55,000 civilian federal employees in 160 agencies. The government hopes to establish public-private and federal-local partnerships to set up centers in facilities such as community colleges and elementary schools, executive suites, and space owned by local businesses.

In its push to increase teleworking, the GSA is also considering two dozen other metro areas around the country for future center sites. The government's goal is to have 2 percent of the federal work force—about 40,000 people—work away from the office one or two days a week by 1996. Now, only about 2,000 federal workers telecommute.

Meanwhile, research is under way to determine how telework can meet the needs of businesses. The Center for the New West, a nonprofit group based in Denver, is investigating businesses' interest in telework and barriers to its increased use. The study is being conducted at one of Southern California's 10 telebusiness centers, in Ontario, near Los Angeles.

"For years, we have only looked at the supply side of teleworking," says Van Romine, the administrator of the project. "Now we're asking what are the barriers—the technological and physical barriers—and also the policy questions."

The study analyzes three clients of the Ontario center: Chiat Day, an advertising agency; the accounting firm of KPMG Peat Marwick; and CALTRANS, the state transportation department, which also funded the study. The researchers have spent months interviewing workers and supervisors and videotaping workers using the center to gauge productivity.

Romine is also working to identify six small companies that are willing to be studied to determine what is unique about small businesses' attitudes and concerns about telecommuting.

Experts say employer perceptions—mainly that communication and performance will suffer—have kept telework on the periphery of work policies. "The problem has never been about technology," Romine says. "The real stumbling block is people's attitudes."

One common management concern is how to establish esprit de corps, a sense of belonging among a dispersed group of workers, a traditional problem of sales forces. Another is that managers still need to *see* employees to believe that they are working, although that perception is slowly changing.

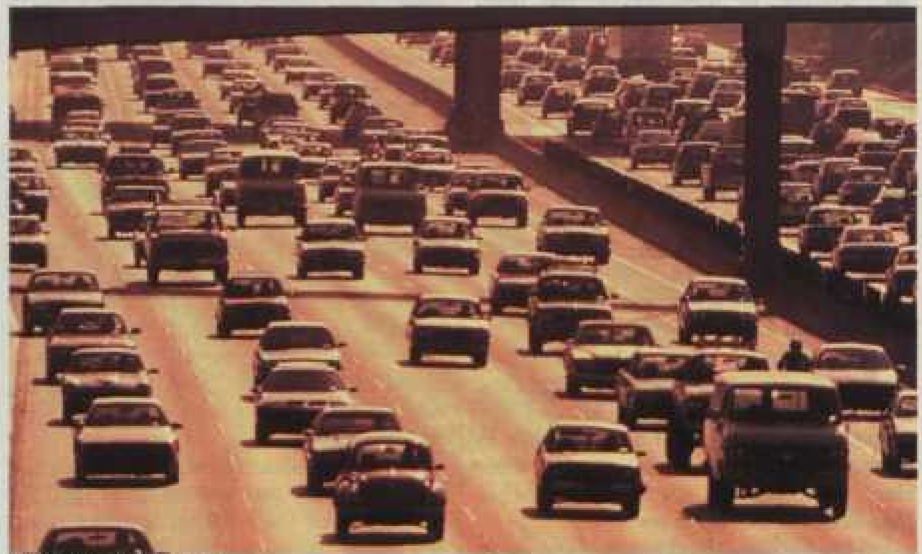


PHOTO: JOAN McCOY—RAINBOW/PNI

Traffic congestion *in major metropolitan areas is helping encourage acceptance of the idea that employees can work away from the traditional office.*

With involvement by larger companies have come formal policies and telework agreements that set out the details of each arrangement and address such concerns as ownership and maintenance of computer equipment, safety in the home workplace, guidelines for communicating with the office, and tangible ways to measure work results.

"We have to solve these issues in order for this to be a major element of the work force," Romine says. "I think the motivation to do that is there, especially in the government and transportation sectors. I think telework will transform the landscape of the American work force. The issue is: How painful will it be, and how long will it take?"

Telework could bring economic vitality to neglected regions and spur whole new industries, says Romine, stating a belief held by many telework advocates. "It will provide new ways for people to participate in the economy."

In fact, the growth of telework is already providing new opportunities for businesses. For example, Frank Cottle, chairman of Office Tech Group, in Long Beach, Calif., is marketing his executive suite services to teleworking companies. Looking for new ways to use commercial real estate, his Alliance Business Centers Network, not yet two years old, has grown to 300 U.S. centers based on the idea of just-in-time office space. Fifteen to 20 percent of his business comes from telework, and he plans to increase that to 35 percent in the next three years.

Kinko's copy centers, based in Ventura, Calif., launched a program last fall to offer videoconferencing services, which are now available in 100 of its 650 locations in the United States.

In addition to computer rental, printing, and faxing, some centers offer private conference rooms. Kinko's says it intends for its 24-hour centers to serve as branch offices for several types of customers, including small-business owners, sales representatives, home-based businesses, and teleworkers.

Business and government alike are carefully watching programs around the country to determine which scenarios produce the most desirable results for employers, their workers, and society.

At this early stage, experimentation is the key. "I'd like to see as many variations on the theme as possible," says Warren Master, director of GSA's Cooperative Administrative Support Unit, who is investigating sites for federal telecenters. "There are many issues here: long-term recruiting and retaining of employees, empowerment, culture change, and also a younger generation [of workers] that is looking at quality-of-life issues. This is not a quick fix. You're talking about a paradigm shift."

Telework is a timely response to today's pressing problems, Master says. "The focus is on community, economic development, and making the maximum use of resources." NB

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Janet L. Willen

Lyme Disease: A Seasonal Risk

Richard Gerstner thought he had the flu when he became ill at his Long Island home in the late 1980s.

Months after the first flulike symptoms passed, however, he developed stiff joints, neurological dysfunction, fatigue, and numbness. The pain became so severe in 1989 that he took a leave of absence from the company where he was an executive. Over the next 2½ years, the pain and fatigue compelled him to take other leaves and, ultimately, to retire. Only after he stopped working did he learn that his "flu" symptoms were the first signs of Lyme disease.

When he was finally diagnosed in 1992, Gerstner began treatment with antibiotics. Three to four weeks of antibiotics can usually eradicate Lyme disease in its early stages, but because Gerstner's illness was diagnosed late, he was treated with oral and intravenous antibiotics for 18 months.

In some cases the damage from Lyme disease is permanent, but Gerstner was lucky. Now CEO and president of Telular Corp., a wireless-communications company in Buffalo Grove, Ill., he says, "For the past year, I've been symptom-free, basically, with minor aches and pains."

Lyme disease is a multisystem infection that can affect the skin, the nerves, the joints, the heart, and the brain. The tick-borne infection is caused by a cork-screw shaped bacterium called Borrelia burgdorferi, named after Dr. Willy Burgdorfer, who discovered it in 1981. Three species of the ixodes tick may transmit the disease.

Ticks typically acquire the infection by feeding on white-footed mice and other small mammals. People pick up ticks in wooded, brushy, and grassy areas during the spring and summer. The American Lyme Disease Foundation, an educational group in Somers, N.Y., says less than 1 percent of adult ticks south of Maryland are infected with B. burgdorferi, but in heavily infested areas of the Northeast, up to 50 percent of adult ticks are.

The disease, which is named after Lyme, Conn., where it was first identified, has shown up in 48 states, but it is most prevalent in the Northeast, the upper Midwest, and the Pacific Northwest. Researchers suspect ticks spread by latching onto deer or birds.

The number of cases reported to the Centers for Disease Control and Prevention is small but growing. More than 9,600 cases were reported in 1992, but that may be just a fraction of the total.

PHOTO: RICHARD STEEDMAN—THE STOCK MARKET

Take precautions *against ticks when hiking.*

"A lot of doctors don't bother reporting the disease," says Dr. Leonard Sigal. He is chief of the division of rheumatology at the University of Medicine and Dentistry of New Jersey, Robert Wood Johnson Medical School, in New Brunswick.

In tick-infested areas, where doctors are attuned to the disease, it is usually diagnosed in its early stages, says Dr. Kathy Orloski-Snider, an epidemic intelligence service officer at the Centers for Disease Control and Prevention. In 60 to 80 percent of Lyme disease cases, an early manifestation of the disease is one or more skin rashes that are usually circular. Some people may experience viruslike symptoms, as Gerstner did; they may feel fatigue, headache, and stiffness, or they may have a fever, swollen glands, or conjunctivitis.

If the disease is not caught early, it may spread throughout the body and become harder to spot and treat. "People may come in with vague symptoms that their physicians can't diagnose," Orloski-Snider says.

One challenge for doctors is that tests are unreliable. "The problem with the diagnoses is that tests available for measuring antibodies are not as precise as they should be," says Dr. Patricia Charache, professor of pathology and medicine at Johns Hopkins Hospital, in Baltimore. Most doctors advise that diagnoses be based on examinations and medical histories.

Research is under way to find a better diagnostic test. None has been adopted as a nationwide standard. Vaccines against the disease are also being evaluated.

The best advice doctors can give is to take precautions in tick-infested areas. Health departments and park services have information on where these areas are. The Centers for Disease Control and Prevention suggests these tips:

- Wear light-colored clothing so ticks are visible.
- Tuck pant legs into socks, and tuck shirts into pants.
- Spray a bug repellent containing deet on clothes and exposed skin except the face, or treat clothes with permethrin.
- Wear a hat and long-sleeved shirt.

Once inside, check your clothing and body for ticks. Ticks must be attached to the body for about 36 hours before they can transmit an infection. Remove a tick with tweezers, pulling steadily at the mouthpart. Be sure not to crush the tick's body, which may contain infectious fluids.

Disinfect the tick-bite area and check for symptoms for the next eight weeks.

The key to prevention is caution. Says Sigal: "Once people know what to look for and to do, Lyme disease will be significantly less of a problem." NB

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

SERVICES

Suds On Wheels

I am researching the possibility of starting a coin-operated car-wash business and need information on equipment, operating costs, and supplies.
C.M., Elysian, Minn.
(Similar questions also from A.P., Pittsburgh; and M.P., Sharon, Pa.)

The International Carwash Association offers information on owning a car wash. The organization's membership directory ($15) provides direct access to manufacturers for equipment prices. The association also offers a range of industry surveys—at varying prices—on subjects such as start-up costs, operating costs, and technology.

To order a membership directory or to obtain more information, contact the association at One Imperial Place, One E. 22nd St., Suite 400, Lombard, Ill. 60148; (708) 495-0100.

For free consultation on the pros and cons of starting a car-wash business, contact Dave Lott, publisher of *American Carwash Review Buyer's Guide*, Lott Publishing Co., 13222-B Admiral Ave., Marina Del Ray, Calif. 90292; (310) 397-4217. Lott welcomes questions and offers information on industry trends and equipment manufacturers, along with an overview of the business.

Lott's magazine is published twice yearly; an annual subscription is $12. It covers car- and truck-washing operations—both full-service and coin-operated—and includes news, features, success stories, new products, and how-to articles on the car-wash industry.

American Clean Car Magazine is published six times a year by American Trade Magazines, Inc., 500 N. Dearborn St., Suite 1100, Chicago, Ill. 60601; (312) 337-7700. It contains news and new-product information for car washes. It costs $33 a year.

Professional Carwashing Magazine is a monthly from National Trade Publications, Inc., 13 Century Hill Drive, Latham, N.Y. 12110; (518) 783-1281. It covers the technical aspects of car-wash systems, new marketing and sales techniques, and issues affecting the industry. An annual subscription is $40. ■

COMPENSATION

Paychecks In Perspective

I am interested in getting information on employee compensation levels nationwide. I run a small manufacturing firm and need some idea of how our salaries compare with those at other companies.
W.B., Murray Hill, N.J.

The U.S. Bureau of Labor Statistics' *Occupational Compensation Survey* gives compensation levels for jobs that cross industry lines, such as secretarial, office support, maintenance, managerial, and professional.

The survey covers salaries in major metropolitan areas of the United States and numerous smaller regions. Added benefits, such as health care and life insurance, are not included. There is no charge for a single copy of the survey. Call (202) 606-6219, -6220, or -6221.

For more than one copy of the survey, write or call the Government Printing Office at P.O. Box 371954, Pittsburgh, Pa. 15250; (412) 644-2721. Each additional copy costs $4.75, including postage and handling.

Information on upper-management salary levels at more than 1,000 small and medium-sized companies in seven industry categories is contained in *1994 Officer Compensation Report*. It includes information on salaries, pay incentives, ownership levels, bonuses, and short- and long-term incentives. Management positions ranging from chief operating officer through lower management are covered.

The report costs $395 and is available from Panel Publishers, 36 W. 34th St., New York, N.Y. 10036; 1-800-638-8437. ■

DRESS CODES

What To Wear

I run a business in which most of my employees do not interact with the general public. I have insisted that they dress in formal business wear, but my employees tell me that casual attire is now the norm in business. Is that true?
R.U., Cedar Rapids, Iowa

ILLUSTRATIONS: MARTHA VAUGHAN

More-casual attire may be acceptable, particularly for your workers who have no contact with the public. NPD Group, Inc., a Port Washington, N.Y., research firm, recently surveyed 4,000 employees and 100 employers nationwide on what they wear to work. Most respondents—overwhelmingly white-collar professionals—said they dress down at least some of the time, either through a year-round casual dress code or on special casual days.

The survey, *Dressing in America: The Casual Workplace*, also indicated that small and medium-sized companies are more likely to encourage casual dress than larger companies are, that workers in the Northeast were more formally attired in the office, those in the West dressed slightly more casually, and employees in North Central states were more likely to dress casually every day.

For more information, write to the NPD Group, Inc., 900 West Shore Road, Port Washington, N.Y. 11050-0402. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space. ■

ENTREPRENEURSHIP

Border Crossing

I am a woman minority member who is interested in starting my own business and taking it to Mexico. Where can I go for help?
S.B., San Antonio

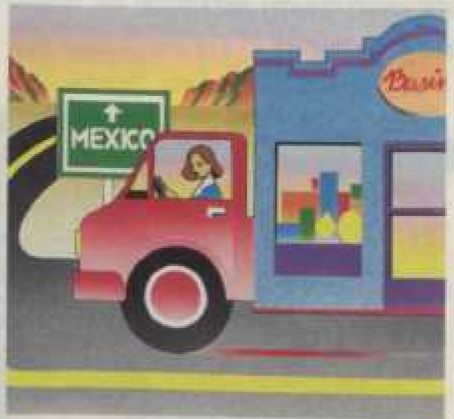
The International Division of the U.S. Chamber of Commerce offers an information package, NAFTA IMPACT, which includes advice on marketing, export financing, business etiquette, tax considerations, and new procedures for certificates of origin.

One of the publications included in the package is a booklet, *A Guide To The NAFTA: What It Means For U.S. Business.*

The NAFTA IMPACT package costs $59.95 for U.S. Chamber members and $69.95 for nonmembers. To order, call (202) 463-5460 for credit card sales, or send a check or money order to International Division, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000.

A Piece of the Action: How Women and Minorities Can Launch Their Own Successful Businesses (AMACOM), by Suzanne Caplan, is a 160-page book that offers practical advice on starting a business; it addresses some of the special needs and obstacles faced by women and minorities.

Caplan, who was president of Pittsburgh Glove Manufacturing Co. from 1972 to 1993, is now CEO of Safety Exchange,



Inc., a data-base information network based in Pittsburgh. In her book she gives detailed start-up information and recounts her experiences as a business owner.

The book costs $17.95 and is available by calling 1-800-262-9699. Refer to ISBN No. 0-8144-7869-7.

For help in taking your business to Mexico, try *The Complete Guide to Doing Business in Mexico* (AMACOM; $29.95), by Anita Winsor. "Explore the new world created by the North American Free Trade Agreement, but don't plunge in without a map," she says.

"Mexico is a unique opportunity," according to Winsor, "but it can be very time-consuming and costly for U.S. businesses to determine the necessary steps involved in transactions there and to make the Mexican contacts that are critical for success."

Winsor is a former trade representative with the U.S.-Mexico Chamber of Commerce, and she now heads the U.S.-Mexico Trade Network.

The book supplies data on Mexico's economy, culture, labor market, and business regulations. The information is targeted for manufacturers, exporters, and service providers.

Also in Winsor's book is a directory containing the names, addresses, and telephone numbers of nearly 1,000 professional services, governmental organizations, and consultants in areas such as marketing, franchising, and border assistance.

"Many Mexican companies are actively seeking partners and joint ventures," Winsor says, "and 90 million Mexicans are potential customers of our goods and services."

To order the book, call 1-800-262-9699; refer to ISBN No. 0-8144-0211-9. NB

It's Your Money

A monthly survey of strategies and suggestions to help you with your personal finances.

By Peter Weaver

TRAVEL

ATMs Abroad Dispense Foreign Currency

PHOTO: ©GEORGE DISARIO—THE STOCK MARKET

In many foreign countries, *you can now use your hometown ATM card to get local currency in as little as six seconds.*

Automatic teller machines (ATMs) that spit out pounds, francs, lira, marks, and other foreign currencies are appearing more and more in foreign cities.

Look on the back of your cards. If they have logos showing an affiliation with MasterCard, Cirrus, Visa, Plus, or American Express, among others, you can make instant transactions by just pushing a few buttons.

"With our affiliates' machines," says Caroline Raeder, director of communications for MasterCard/Cirrus ATM Network, "you can get a much better exchange rate than you'd get from your hotel or a corner cambio." The same claim is made by the Visa/Plus organization and American Express.

After you insert your card and follow the instructions on the screen (in English), "it takes about six seconds for the transaction to be processed through your bank back home and the ATM bank," Raeder says.

What if your card gets stuck, there is some other malfunction, or the local bank's computer is down? Though it's extremely rare, says Raeder, "if it happens, you have to call your bank back home to straighten it out." If your home bank's computer is down, wait and try again.

Many card issuers have 800 numbers you can call, and some have 24-hour hot lines to accommodate customers traveling abroad. Others have correspondent banks or affiliates abroad that you can call for assistance.

"We advise our customers to take several forms of payment—traveler's checks, ATM card, credit card, and some local currency—when they travel abroad," Raeder says.

Before leaving home, find out how the various card transactions work. What are the daily or weekly withdrawal limits? What are the transaction fees? If you use a credit card instead of an ATM debit card, will you have to pay interest on the cash advance? Will you need a special PIN (personal identification number)?

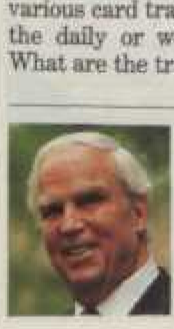
There are now hundreds of thousands of ATMs in countries worldwide. But before you go overseas, you will want to know if there are machines where you will be traveling.

A new type of machine exchanges cash for cash. "You put in a $100 bill," says David Montgomery, a spokesman for the Thomas Cook Foreign Exchange Co., "and the machine gives you back the proper amount of pounds, francs, lira, or whatever."

The exchange rate used in these machines (and some of the ones that take plastic) may vary substantially. "You have to shop the rates to make sure," Montgomery says. One traveler recently reported using a machine in Paris on a Sunday and getting currency at an exchange rate almost 10 percent less favorable than the rate available at a bank the previous Friday.

American Express has a worldwide Express Cash Network with about 24,000 machines abroad that are operated by affiliate banks and other financial institutions. From these you can get cash the same way you get it from any other ATM.

With machines owned and operated by American Express, you can also get traveler's checks. These machines can be found in airports, some major hotels, and other spots in foreign cities. Because locations are limited, it's a good idea to find out where they are before you leave.



Peter Weaver is a Washington-based columnist on personal finance.

Traveler's Checks Without The Fees

If you are planning to buy a lot of traveler's checks for a trip here or abroad, you may want to look for an issuer that does not charge a fee (typically, from 1 to 1.5 percent per $100) for the transaction.

The American Automobile Association (AAA) doesn't charge a fee for checks purchased by members. Ruesch International doesn't charge a fee for dollar or foreign currency checks ordered by mail.

Thomas Cook Foreign Exchange doesn't charge a fee for foreign currency checks but does charge 1 or 1.5 percent (the latter for the dual-signature feature) for dollar checks ordered by mail.

Those with American Express gold or platinum cards pay no fees for their checks; neither do customers with gold cards issued by some banks (you have to ask).

For more information, call Ruesch International, 1-800-424-2923; Thomas Cook Foreign Exchange, 1-800-368-5683; or the American Express 800 number on the back of the card. ■

FAMILY FINANCES

For The College-Bound, Money Managing 101

If your son or daughter is starting college this fall, you already know how much you're going to spend for tuition, room, and board. What you may not know is how much money to make available for your student to cover all the extras (eating out, travel, entertainment, clothes, and so forth) and how the cash disbursement should be handled.

We talked with some of the nation's top experts on the subject: deans, guidance counselors, and family therapists. All agreed on the potential danger if a student is given a credit card. "If students have not been accustomed to the freedom that comes with a credit card," says Diane Austin, associate dean of student affairs at Bentley College, in Waltham, Mass., "they're going to be very surprised by the responsibilities that come with it and get themselves way in over their heads."

"There may be peer pressure to go out on a weekday night to a bar or tavern," says the Rev. Bernard Knoth, S.J., dean of freshmen at Georgetown University, in Washington, D.C., "and at that point having a credit card that nobody asks questions about can really become detrimental in getting off to a good start."

If having a credit card is not such a hot idea for freshmen, then what's the best way to handle the transfer of spending money? "Parents need to put out a budget the student can live with, and then sit down and talk it over before heading off to school," says Joan Brasier, director of high-school guidance services for the Richardson, Texas, school system.

"In terms of allowances," says Ann Gonzalez, a family therapist and consultant on parent-student relations in Chevy Chase, Md., "I sometimes encourage parents to call the college or university and ask about normal spending amounts for their campus."

To provide students with a specified amount of money every month, some parents rely on their bank's ATM system if there is an outlet on or near the campus. Others set up a local checking account in the student's name. (The student, of course, has to be responsible enough not to bounce checks.)

PHOTO: SCHUCK SAVAGE—UNIPHOTO

A part-time job *can help pay the bills for a college student—but it may also eat into study time.*

Some parents, counselors say, even use traveler's checks; students can use them as cash coupons, knowing how much they have left toward the end of the month.

Nella Barkley, director of the Crystal Barkley career-counseling center in New York and author of books on parent-child money issues, says: "After you have agreed on a monthly amount, if the student wants more later on, you might suggest getting a part-time job. In some cases, some of these campus-related jobs can add an extra dimension to certain courses."

But be careful about pushing too hard too soon for part-time work. Much depends on the maturity and study habits of the student.

"Having a part-time job is a good idea," says Arline Ingram, director of guidance and college counseling at Cape Henry Collegiate School, in Virginia Beach, Va., "but it's sometimes harder for freshmen who are not well-organized to be working right away. The responsibility is to be a good student."

Once a student has settled in, however, a part-time job might provide a good share of spending money and even be academically beneficial. "There's a lot of research," says Brasier, "that shows students who work part time or are in a work-study program tend to make better students." ■

INVESTING

Know The Risks Of Options Moves

Buying or selling stock options can be akin to casino gambling. Or it can be a cautious way of hedging against big fluctuations in prices. If you play, you'd better know what you're doing.

There are several basic option moves, with a lot of combinations and permutations. Here are a few of the more popular plays:

Selling covered calls. You own the stock and you'd like to keep it, but you feel it won't go anywhere in the near future. Your broker or financial adviser sells a call on the stock, which is set at a somewhat higher "strike" price several months hence. The buyer, who is betting the stock will go up, pays you a premium for the privilege of buying the stock at a fixed future price.

If the stock goes past the strike price, you keep the premium but turn the stock over and lose its gain in price. If the stock stays at the same price, rises to a point below the strike price or drops in price, you keep the stock and the premium. You can go back and sell another call, hoping to keep bringing in extra premium income.

Buying calls. You pay a premium of $500, $1,000, or whatever, and "rent" a stock for several months. If it goes up past the strike price, you stand to make a profit on your investment. If it doesn't, you lose your premium payment.

Buying puts. You bet that the stock will go down in price. If it goes down past the strike price, you win. If not, you lose the premium. "On occasion, when we want to transfer capital gains from one year to the next, we purchase put options," says Randy Thurman, president of The Financial Planning Company of Oklahoma, in Oklahoma City. It's complicated, but it can work as part of an overall financial and tax-planning strategy.

"In selling calls or playing any of the other option games," says Jerry Paul, president of Quixote Investment Management, of Naperville, Ill., "you have to be aware of the tax consequences." If, for example, you own a stock that has gained a lot in value, you could be hit with a big tax on the gain. There are ways to sidestep taxes for a while, but they cost money.

Jerry Paul and Randy Thurman list these caveats to playing the options:

- Don't speculate. Use the options game as part of a portfolio strategy to pick up extra income or protect capital gains against the possibility of a falling market.
- Never be "sold" on opening an options account. If you don't understand how it works and the risks you face, don't do it.
- Know what commissions you will pay. In all too many cases, profits are eaten up with commissions paid out through frequent trades.
- Know the tax consequences. Talk to your tax adviser if necessary. ■

CORRECTION

In the July It's Your Money item on adding a little extra to monthly mortgage payments to save on interest costs, the phone number for ordering *The Banker's Secret*, by Mark Eisenson, was inaccurate. The correct number is 1-800-255-0899.

NB

Nation'sBusiness

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Here are tips to help you protect your firm from commonplace scams. (Page 25)

A LOAN AT LAST? **#9026**
The improved availability of credit should be a boon to start-ups as well as established concerns. (Page 40)

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Where I Stand

On Immigration

Economic problems and political unrest in many parts of the world have caused a sharp increase in the number of foreigners entering the United States illegally. Many seek welfare and other benefits, including public education for their children. As a result, a backlash is developing in states hard-pressed to maintain services for their own citizens. These questions seek your views on various aspects of this issue.

Results of this poll will be forwarded to administration and congressional officials. Send the attached, postage-paid response card. Or circle your answers below and fax this page to (202) 463-5636.

1 Should illegal aliens be prohibited from receiving welfare and other social services from government agencies?

1. Yes
2. No
3. No opinion

2 If illegal aliens are to continue to receive social services, should the federal government help states meet the cost?

1. Yes
2. No
3. No opinion

3 Should the federal government reimburse state and local governments for the costs of prosecuting and incarcerating illegal aliens involved in crimes?

1. Yes
2. No
3. No opinion

4 Should children of illegal aliens be barred from attending U.S. public schools?

1. Yes
2. No
3. No opinion

5 Under the U.S. Constitution, a child born in this country to parents who are not citizens is a U.S. citizen. Should this provision be eliminated?

1. Yes
2. No
3. No opinion

6 Should federal requirements that state and local funds be used to provide health-care services to illegal aliens be repealed?

1. Yes
2. No
3. No opinion

Send Your Response Today!

POLL RESULTS

Readers' Views On Davis-Bacon Law

The Davis-Bacon law mandating pay scales for federally assisted construction projects is no longer relevant to today's labor market, in the view of more than 80 percent of the respondents to a Where I Stand poll.

Readers who participated in the June *Nation's Business* survey were also strongly opposed to proposals for extension of the law's provisions and favored steps to make compliance easier.

When passed 60 years ago, the Davis-Bacon Act was intended to prevent individuals competing for scarce jobs from undercutting one another on wages. It requires that workers on construction projects involving federal funds be paid the prevailing wage for the particular region. In practice, however, the prevailing wage is usually a union scale. Davis-Bacon critics say it adds billions of dollars a year to labor costs.

Organized labor not only has been able to block repeal attempts in Congress but also wants to expand the law's coverage from construction sites to off-site manufacturers of materials for projects and to truckers carrying those materials.

While its eventual goal is repeal, business continues to seek modification of the law through such steps as an increase in the dollar threshold at which it takes effect.

Here are the complete results of the Where I Stand poll on proposed changes in the Davis-Bacon Act.

DAVIS-BACON

Should the threshold for the Davis-Bacon Act's prevailing-wage requirements be raised from $2,000 to $100,000?	1. Yes	75%
	2. No	22
	3. No opinion	3
Should contractors covered by the act be permitted to certify compliance in lieu of submitting weekly payroll reports?	1. Yes	72%
	2. No	23
	3. No opinion	5
Should the act be extended to off-site manufacturers and suppliers of construction materials as well as to truckers carrying their goods to projects?	1. Yes	9%
	2. No	88
	3. No opinion	3
Should individuals and unions, in addition to government officials, have authority to file complaints of alleged violations of Davis-Bacon provisions?	1. Yes	29%
	2. No	63
	3. No opinion	8
Advocates of repealing the Davis-Bacon Act say this Depression-era law is not relevant to today's labor market. What is your view?	1. Agree	81%
	2. Disagree	16
	3. No opinion	3
In determining the prevailing wage of an area for Davis-Bacon purposes, should the Labor Department consider only the pay rates in union contracts?	1. Yes	7%
	2. No	91
	3. No opinion	2

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For Your Tax File

How to keep taxes from trapping you.

By Albert B. Ellentuck

REAL ESTATE

A Home Buyer Can Deduct "Points" Paid By The Seller

When you purchase a home, you frequently have to pay the bank "points" on your mortgage. In effect, these points are additional interest paid to the bank at the closing to induce the institution to lend you the money.

For tax purposes, prepaid interest is deductible only as it accrues. But there is an exception for points, which are generally deductible in the year they are paid.

In recent years, many sellers who have had difficulty selling their homes have paid the points themselves. However, because the Internal Revenue Service had required that the points be paid directly by the buyer, it did not previously allow the buyer to deduct the points paid by the seller.

The IRS has now abandoned this artificial distinction. It will now treat the buyer as having paid the points directly from his or her own funds and, accordingly, will allow the deduction to the buyer. The buyer's cost basis for the home must be reduced by the amount of points paid by the seller, but this would not have any tax effect until some time in the future when the property is sold.

For example, Jim and Jane are purchasing a $300,000 home from Sam. In order to make the purchase, they are obtaining a $200,000 mortgage loan from their bank. At the closing, the bank will receive two points—or $4,000. That sum of $4,000 will be paid by Sam. Under the new ruling, the $4,000 can now be deducted by Jim and Jane in the year they take out the mortgage. The tax basis of their new house will be $296,000.

PHOTO: ©JEFFERY MYERS—STOCK BOSTON/PNI

Points paid by the seller *for a home loan can now be a deduction for the buyer.*

Some limitations apply to the deduction of points—namely, that if the mortgage exceeds $1 million, the portion of the points allocated to the excess would not be deductible. Also, points paid for home-improvement loans, refinancing, home-equity loans, or loans on vacation or second homes are not deductible.

Since this ruling applies generally to points paid after Dec. 31, 1990, anyone who purchased a home in 1993 with seller-paid points and who has not yet filed a 1993 return can now deduct the points on that return.

If returns have been filed for 1991, 1992, and 1993, home buyers should consider filing amended returns for those years. They should write "seller paid points" in the top right-hand margin of the amended return and attach a copy of the settlement or closing statement showing the amount of seller-paid points paid in the transaction. ■

LEGAL ACTION

Discrimination Settlements Can Be Tax-Free

At the first hint of an employee complaint alleging race, age, or sex discrimination, a small-business owner should consult with attorneys on how to proceed. If the problem can't be worked out, it may result in payment of a cash settlement to the employee. While taxes may be the last thing on anyone's mind at such a time, considering them could be worthwhile.

Generally, damages recovered by employees for tort-type injuries are tax-free, but those for breach of contract or back pay are taxable. With damages collected for race, age, or sex discrimination, it is not always clear how much of the settlement award or payment is for a tort-type injury and how much represents reimbursement for lost compensation.

For tax purposes, part of an award can be allocated to tort injuries and part to compensation. Keep in mind that the type of statute under which the suit is brought also affects the tax treatment.

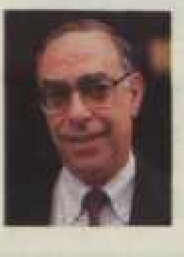
In a recent case, titled *Bill McKay Jr.*, the Tax Court held that $12 million of a $14 million award for wrongful discharge and breach of an employment contract was tax-free to the employee based on an allocation made by the parties in a settlement agreement. In the case, the Internal Revenue Service had argued that the agreement should not be respected since the employer and employee were not hostile adversaries.

The IRS reasoned that the employer could deduct the entire settlement payment whether it was allocated to excludable tort or taxable contract claims. The Tax Court, however, held that the parties were adversaries regarding the award amount. Also, the employer would want to avoid the effect on its reputation of a substantial payment for a wrongful-discharge tort claim.

The same issue arises in buyout situations where companies are trimming their staffs. For example, if the employee can show that he or she was "forced out" because of age and that a portion of the buyout was for settlement of any potential age-discrimination claim, that portion might be tax-free.

It is important when you're negotiating a settlement that both parties agree to an allocation. In addition, it might be necessary for the employee to make a formal claim for age discrimination as support for this portion being tax-free.

The employer and employee are advised to discuss the structuring of any such settlement with their attorneys before making an agreement final. NB



Tax lawyer Albert B. Ellentuck is counsel to the Washington, D.C., law firm of King & Nordlinger. Readers should see tax and legal advisers on specific cases.

Editorial

Don't Let This Nightmare Become Real

The people who run the federal government are often accused of running out of ideas, of lacking the creativity and spark needed to keep ahead of events.

That is obviously a fair assessment in most aspects of statecraft, but it unfortunately does not apply to taxation. Finding ways to drag more money out of American taxpayers is one of the things that official Washington does best.

We're going to need lots more money not too far down the road?

Then how about a value-added tax that would raise $608 billion over five years? Or picking up $523 billion by eliminating the deductibility of home-mortgage interest, state and local taxes, and charitable contributions?

Good work. We've already passed a trillion dollars, and we're not even breathing hard.

Making workers pay income taxes on the value of employer-paid health insurance would produce an additional $254 billion.

Another round of increases in income-tax rates would generate $195 billion, and another increase in the motor-fuel tax would bring in $127 billion.

If this sounds like a taxpayer's worst nightmare, it is. But it is also grounded in reality. Those and many other potential tax increases are on a list drawn up by the Congressional Budget Office (CBO) for use in developing strategy for deficit reduction.

SOURCE: CONGRESSIONAL BUDGET OFFICE PROJECTIONS AS OF MARCH 1994

The full listing appeared on Page 26 in last month's issue of *Nation's Business*. The standby deficit-reduction plan also offers options for spending reductions. Recent history suggests, however, that future attempts to slow red-ink spending will be based on a combination of real tax increases and highly suspect claims of cutbacks in expenditures.

In presenting its options, the CBO seeks a neutral position, noting that it gives the case for and against each tax-increase or spending-reduction option and that it does not endorse any.

The budget office does not suggest, however, that its list can be separated from real-world considerations. CBO notes: "Over the years, this report has become a standard reference for developing deficit-reduction plans."

Thus, the significance of the tax-increase options cannot be underestimated or played down as hypothetical suggestions falling short of actual legislative proposals. The last two rounds of deficit reduction resulted in tax increases that will total $400 billion a year when fully effective in 1998, but the future of the federal budget nevertheless remains a study in red.

Accumulated deficits over the next decade are expected to total $2.6 trillion, which will mean intense pressure for the type of high-yield tax increases offered by the CBO as options.

CBO says in its report: "Further policy actions are necessary if the deficit is to be brought down, and are most certainly necessary if the budget is to be brought into balance."

Whatever terms CBO chooses to use—among them "policy actions" and "options"—its report should realistically be considered as a warning.

If federal spending is not brought down radically within the next few years, Congress will begin compiling a draconian tax-increase package from the CBO's handy checklist.

To avoid that outcome, business must be even more insistent in its demands for fiscal restraint.

That means intensified support for such actions as a balanced-budget amendment, line-item veto, a spending-reduction commission, the A-to-Z plan to allow every member of the House of Representatives an official forum for proposing spending cuts, and abolition of the official practice of claiming that spending has been cut if an increase is not as high as projected.

If Congress continues on its present course and refuses to impose both short- and long-term spending restraints, the tax nightmare inherent in its budget office's report will become all too real. NB

Free-Spirited Enterprise

ILLUSTRATIONS: WILLIAM COULTER

By Janet L. Willen

Animate Your Meetings

A 14th-century nobleman, "Vlad the Facilitator," gathered his captured enemies for meetings and tortured them with the battle cry, "Let's all write a mission statement." So says "Dilbert," Scott Adams' nationally syndicated comic strip character, in a Dilbert Business Video.

The four videos in the Dilbert business series, from **cohen/gebler associates,** of Boston, are designed to help business leaders overcome participants' skepticism about meetings. In four to five minutes, each tape takes a lighthearted look at quality programs, business meetings, sales techniques, and managing change. Two one-minute animated videos are available for use before coffee breaks or break-out sessions.

The long videos cost $199 each; the short ones are $99 each. A package of all six costs $695. Quantity discounts are available. For more information, call 1-800-208-3535.

Take A Message

Don't tie a string around your finger. Instead, record your messages.

The Voice It Personal Note Recorder, from **Voice It Technologies,** of Fort Collins, Colo., is a wafer-thin, credit-card-size message taker. The recorder stores messages on a computer chip and runs on four lithium batteries. You can leave 40 seconds' worth of messages on the model VT40 and 75 seconds' worth on the model VT75 recorder.

Both personal recorders let you back up or go forward through the messages and erase them one at a time or all at once. A blinking message light signals that you—or someone else—left a message.

The Voice It recorder comes with a magnetic strip and a detachable clip, so you can keep it on a filing cabinet or refrigerator, on a car visor, or even in your shirt pocket.

The VT75 model is priced at $79.95, and the VT40 costs $59.95. For more information, call 1-800-47VOICE, or 1-800-478-6423.

Comings And Goings

Employees who clock in and out can now do so using encoded, laminated badges and an IBM-compatible computer system.

The Smart Clock Jr. Out-of-the-Box Employee Time and Attendance System, from **Coastal Data Products Inc.,** of Miami, is designed for companies with 50 or fewer employees. The system produces daily, weekly, or biweekly reports. It can also produce reports to identify those who are close to working overtime and those who are absent or tardy.

Smart Clock Jr. comes with a clock with a magnetic-strip reader, 25 badges, 50 feet of cable, software on 3½- or 5¼-inch discs, and a manual. Cost: $695. Additional badges cost $2.50 each.

The company also sells payroll interface modules for $75.

For more information, call 1-800-742-2048.

The Force Is With You

Here's alarming news for anyone who gets too close to a motorcycle protected by a security system from **Lanico Engineering,** of San Diego. Called Force Field, the system uses electromagnetic sensors to detect anyone's approach. When someone gets too close, the system clicks into action. If the person remains close, a siren sounds.

Force Field includes two boxes—the electrical mechanisms and the proximity sensor—that fit under the seat, a siren that attaches to the tail section, and a remote control with a key ring. The driver can program the system to activate when the engine is turned off or when the driver leaves the bike. When the system is armed, the ignition is deactivated.

Force Field is designed to be vibration- and water-resistant. It costs $299.

For more information, call (619) 279-6156.

An Enlightening Idea

For personal protection, the **McLean Co.,** of Canastota, N.Y., makes Stop-Light, a 6⅜-inch-long flashlight with a replaceable half-ounce canister of protective hot pepper spray.

The McLean Co. says the spray incapacitates an attacker for up to 20 minutes without causing permanent injury.

The flashlight projects a high-intensity focused beam and runs on two AAA batteries. The on-off switch for the light beam is like that of a conventional flashlight. To use the spray, lift the switch to reach a push button. The canister contains spray for 14 half-second bursts of up to 10 feet. Cost: $29.95. Replacement canisters: $9.50 each. For more information, call (315) 655-2900. NB

Smart Solutions℠

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Person wants to get 15 screenplays to L.A.

Doesn't want to pay overnight prices.

Doesn't want to worry either.

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Doesn't cost much.

Package gets noticed.

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The Business Advocate

SUPPLEMENT TO Nation's Business AUGUST 1994

U.S. Chamber of Commerce

Chamber Pushes Dole Health Plan

Senate Minority Leader Bob Dole, R-Kan., talks with some of the earliest supporters of the health-care-reform plan he proposed in late June. From the left are Sen. Thad Cochran, R-Miss.; U.S. Chamber President Richard L. Lesher; and Sens. Conrad Burns, R-Mont.; Bob Packwood, R-Ore. (seated); Malcolm Wallop, R-Wyo.; Dole; Texas Republicans Kay Bailey Hutchison and Phil Gramm; and Judd Gregg, R-N.H. Dole's proposal contains key reform elements advocated by the Chamber and does not rely on an employer mandate or a government-run system. *See Page 79.*

Chamber Wins On Striker Bill

See Page 78

■ Labor Issues

Striker-Replacement Measure Defeated

In an important victory for business, the U.S. Chamber of Commerce defeated a bill that would have banned employers from hiring long-term replacements for striking workers.

The victory came July 13 when Senate proponents of the bill failed for a second time to gain enough support to cut off debate on the measure.

"Defeat of the strike bill has been at the top of the Chamber's legislative agenda," said Chamber President Richard L. Lesher. "This is a victory for our members."

The Chamber led the business coalition against the bill. The Senate opposition was led by Sen. Orrin G. Hatch, R-Utah.

Last year, in the first session of the current Congress, the House had voted to approve the measure. It had also approved a similar bill in 1991, but then, too, Senate opponents of the legislation had mounted a successful filibuster, or prolonged debate, to prevent a vote on the measure.

This year, with 60 votes needed to cut off debate, the Senate count was 53-47 on July 12 and 53-46 on July 13.

The striker-replacement bill would have prohibited employers from permanently replacing employees—either nonunion or union—who strike over economic conditions, such as wages and benefits.

Sen. Hatch led strike-bill opposition.

Current law already bans permanent replacements in strikes involving management's use of an unfair labor practice, such as provoking a walkout in an attempt to "bust" a union.

The legislation, which has been a top priority of organized labor, was sponsored in the Senate by Sens. Howard M. Metzenbaum, D-Ohio, and Edward M. Kennedy, D-Mass., and in the House by Rep. William L. "Bill" Clay, D-Mo.

The Chamber testified last year before a Senate committee that the legislation would encourage and prolong strikes at union firms and make organizing nonunion companies much easier for labor unions. It also would upset the longstanding balance between the rights of labor and management, said the Chamber.

Although the Senate strike bill is unlikely to be considered again this year, Metzenbaum threatened to attach the measure to other legislation expected to be brought to the floor for a vote before Congress adjourns.

■ Your Views

Help Plan The Business Agenda Sept. 8

The U.S. Chamber of Commerce invites all its members to help set the National Business Agenda for 1995-96. To participate, plan now to attend a dynamic, nationwide videoconference on Sept. 8 at a satellite downlink location nearest you.

The satellite town hall meeting will be broadcast from 11 a.m. to 1 p.m. Eastern time to downlink sites nationwide. For downlink locations and other information, call Greg Wilson in the Chamber's Office of Membership Grassroots Management at (202) 463-5604.

In addition, watch for a survey on business priorities in the polybag with your October *Nation's Business* and *Business Advocate*.

■ Victory

Chamber Efforts To Simplify Purchasing Process Pay Off

The U.S. Chamber of Commerce secured a key victory in June when both the House and the Senate approved legislation to simplify the federal government's process for buying goods and services from businesses.

While the two versions of the legislation have some differences that must be reconciled by a conference committee, both bills would make bidding on and fulfilling government contracts easier.

One of the most important changes the Chamber lobbied hard for would allow the government to purchase more commercial goods directly off the shelf. Currently, virtually everything the government buys must meet detailed specifications.

The Chamber also pushed for specific reforms to make selling to the government more attractive to small businesses. Measures included in the bills would:

■ Lighten the paperwork burden for companies involved in smaller purchases.

■ Create an electronic data-interchange system, which would allow small businesses to tap into internal government bulletin boards where agencies post notices of such opportunities.

■ Raise a threshold for relatively simple purchases from $25,000 to $100,000.

One key difference between the House and Senate bills relates to small-business set-asides. The Senate legislation specifies that contracts under $100,000 would be set aside for small-business bidders. But in the House, lawmakers did not include set-asides. This was done primarily for technical reasons: Such provisions must go through the House Small Business Committee, but the bill was not referred to that committee.

That committee, however, recently approved a separate bill addressing set-asides, and it will send such legislation to the House floor for a vote.

The Chamber supports the set-asides, and it is widely expected that the conference committee will include them in final legislation.

Legislation

Chamber Pushes Dole Health Bill

The U.S. Chamber of Commerce is pushing a health-care reform plan proposed by Senate Minority Leader Bob Dole, R-Kan., as a measure "that we can all agree on."

"This is real health-care reform," said Chamber President Richard L. Lesher at a June 30 Capitol Hill news conference in announcing the business federation's support for the Dole proposal. "It is market-based and is as acceptable to working men and women as it is to American business. Now it is up to Congress to get it done."

The plan, which has the support of 40 Senate Republicans, embodies the eight elements of the Chamber's "American Plan." That plan was formulated in response to a poll of the organization's members and adopted as policy by its board of directors. It calls for:

- Insurance reforms to ensure availability and portability of coverage.
- Consumer choice.
- Purchasing pools for small employers and individuals.
- Simplified administration.
- Malpractice reform.
- Price and quality report cards on health-insurance plans.
- A standard minimum benefits package that all insurers would offer to allow comparison shopping.
- One hundred percent deductibility of insurance premiums paid by the self-employed.

Lesher said the Dole plan "incorporates the Chamber's eight key elements without resorting to an employer mandate, new employer taxes, or burdensome government bureaucracy."

The same cannot be said about the four health-care proposals approved in the past several weeks by House and Senate committees having jurisdiction over the issue.

Three of those plans would, among other requirements, mandate that employers pay 80 percent of their employees' health-insurance premiums. A fourth plan would allow for such a mandate to be imposed if 95 percent of the public is not covered by a health plan by the year 2002. All of the plans would impose new taxes, including a tax on health-insurance premiums.

The Chamber denounced those proposals as it urged members of Congress to support the Dole plan and to sign a pledge to oppose employer mandates, tax increases, and expansion of the government bureaucracy as part of any health-care reform legislation.

These incumbent members and candidates for Congress had signed the Chamber's health-care pledge by July 11:

Senate Minority Leader Bob Dole, R-Kan., center, discusses his health-care proposal with U.S. Chamber President Richard L. Lesher, right, and Sen. Malcolm Wallop, R-Wyo.

U.S. Senate

Hank Brown, R-Colo.
Conrad Burns, R-Mont.
Paul Coverdell, R-Ga.
Larry E. Craig, R-Idaho
Bob Dole, R-Kan.
Jesse Helms, R-N.C.
Kay Bailey Hutchison, R-Texas
Richard G. Lugar, R-Ind.
Connie Mack, R-Fla.
Don Nickles, R-Okla.
Larry Pressler, R-S.D.
Malcolm Wallop, R-Wyo.

Rep. Jim Bunning, R-Ky., signs the Chamber's health-care pledge. Behind him is Julie Gackenbach, the Chamber's tax policy director.

House of Representatives

Dick Armey, R-Texas
Spencer Bachus, R-Ala.
Bill Baker, R-Calif.
Richard H. Baker, R-La.
Cass Ballenger, R-N.C.
Roscoe G. Bartlett, R-Md.
Thomas J. Bliley Jr., R-Va.
John A. Boehner, R-Ohio
Jim Bunning, R-Ky.
Dan Burton, R-Ind.
Ken Calvert, R-Calif.
Charles T. Canady, R-Fla.
C. Christopher Cox, R-Calif.
Philip M. Crane, R-Ill.
Tom DeLay, R-Texas
John T. Doolittle, R-Calif.
John J. Duncan Jr., R-Tenn.
Jennifer Dunn, R-Wash.
Thomas W. Ewing, R-Ill.
Harris W. Fawell, R-Ill.
Jack Fields, R-Texas
Newt Gingrich, R-Ga.
Robert W. Goodlatte, R-Va.
Porter J. Goss, R-Fla.
Jim Greenwood, R-Pa.
Ralph M. Hall, D-Texas
Mel Hancock, R-Mo.
J. Dennis Hastert, R-Ill.
Joel Hefley, R-Colo.
Wally Herger, R-Calif.
Bob Inglis, R-S.C.
Ernest J. Istook, R-Okla.
Jay C. Kim, R-Calif.
Peter T. King, R-N.Y.
Jack Kingston, R-Ga.
Joseph R. Knollenberg, R-Mich.
Jon L. Kyl, R-Ariz.
Jerry Lewis, R-Calif.
John Linder, R-Ga.
Robert L. Livingston, R-La.
Scott McInnis, R-Colo.
Howard P. "Buck" McKeon, R-Calif.
Rob Portman, R-Ohio
Jim Ramstad, R-Minn.
Rick Santorum, R-Pa.
Dan Schaefer, R-Colo.
Floyd D. Spence, R-S.C.
Bob Stump, R-Ariz.
Dick Zimmer, R-N.J.

Congressional Candidates

Benjamin M. Brink, R-Calif.
Helen Chenoweth, R-Idaho
Thomas M. Davis, R-Va.
John E. Ensign, R-Nev.
Michael P. Forbes, R-N.Y.
Michael H. Herson, R-N.J.
John McCarty, R-Pa.
Colin McMillan, R-N.M.
Bob Ney, R-Ohio
John A. Schall, R-Mich.
Susan Bitter Smith, R-Ariz.
Kevin Vigilante, R-R.I.
Bill Witt, R-Ore.

Unfunded Mandates

The issue of federal unfunded mandates is gaining momentum on Capitol Hill, and the U.S. Chamber has been working aggressively to win support for limiting such requirements. (See related story on Page 83.) Unfunded mandates force states, localities, and businesses to spend often-huge sums of money to correct problems whether they exist in their areas or not. The mandate issue was recently highlighted on "It's Your Business," the weekly public-affairs television show produced by the Chamber and moderated by Meryl Comer (center above). Panelists debating the issue, from left to right, were Richard L. Lesher, U.S. Chamber president; Sen. Paul Coverdell, R-Ga.; Stephen Francisco of the United Steelworkers of America; and Gary Bass of OMB Watch. At right, the Chamber's Lorraine Lavet discusses the issue with Sen. William V. Roth Jr., R-Del., on Capitol Hill.

Business Ballot

Members' Optimism Rises

U.S. Chamber of Commerce members' confidence in the six-month economic outlook jumped in June to its highest level since April 1993, according to the latest Business Confidence Index.

The index is a composite of the results of three bimonthly economic-outlook questions on the Business Ballot, a bimonthly poll of Chamber members.

For June, the index was 56.3, up from 49.9 this past April; the index was 59.3 in April 1993. (See the chart.) An index of 50 means the number of companies expecting increases in their sales, employment, and in the economy over the next six months is equal to the number expecting decreases.

"June's improvement in the Business Confidence Index suggests that American businesses believe that the economy is settling into a modest growth track after slowing down from the hectic pace of six months ago," said Martin A. Regalia, a Chamber vice president and chief economist. "Interest rates, which began a dramatic increase in January, had stabilized by the time most respondents returned their surveys in mid-June, and inflation remained tame."

Respondents expecting the economy to improve during the next six months rose to 29.6 percent in June from 24.7 in April. More significantly, just 27.5 percent said they believed the economy would decline over the following six months, compared with 37.1 percent in April. Nearly 43 percent said they expect no change in the economy.

As they were in the April survey, respondents to the June poll were more optimistic about their own firms' prospects than the economy's. Nearly 45 percent of the June respondents expected their sales to rise over the next six months, compared with 37.6 percent in April.

Only 16.6 percent believed sales would decrease, compared with 24.3 percent in April; 38.6 percent thought there would be no change, compared with 38.1 percent in April.

Also on the bright side, 21.3 percent expect to add workers in the following six months, up from 17.8 percent in April. Those expecting to cut workers fell from 19.2 percent in April to 13.2 percent in June. Expecting jobs to remain steady were 65.5 percent of the respondents, up from 63 percent in April.

Your Views

Congressional Turnover

The large number of members of Congress deciding not to seek reelection this November is viewed generally as a favorable development by business people, according to the latest Business Ballot poll.

More than 85 percent of the respondents to the June poll of U.S. Chamber of Commerce members said turnover in Congress is healthy; 3.7 percent view the projected heavy turnover as an unfortunate loss of experience; and 11.2 percent believe the turnover will make little difference.

As of early July, 36 House and nine Senate members had decided to retire, were defeated in primaries, or were running for the governorship in their states. Thirteen other representatives were running for the U.S. Senate.

Two House members, Reps. Paul B. Henry, R-Mich., and William H. Natcher, D-Ky., died earlier this year, and their seats were filled in special elections.

Both seats are open again in November.

The Business Ballot polls all U.S. Chamber members bimonthly on business-related issues and their economic outlook. (See the related story on the poll's economic results on Page 80.)

On the issue of congressional efforts to combat crime, nearly 79 percent of the respondents said Congress is treating the symptoms of violence rather than the disease. Just over 16 percent believe lawmakers are taking steps in the right direction, and 5.2 percent had no opinion.

A conference committee is currently working out differences between House- and Senate-passed crime bills. Both versions would outlaw certain types of firearms and increase the number of police officers nationwide.

When asked whether the taxation of employer-provided health benefits—as income to workers—would be a reasonable means of financing health-care reform, 71.6 percent said no, 16.1 said yes, and 12.3 were undecided.

The Chamber, along with the AFL-CIO and 195 other groups, recently voiced opposition to Congress to the proposal to tax health benefits as a way of paying for health-care reform.

Just over 59 percent of Business Ballot respondents said the issue of privacy in telecommunications is "very important," while nearly 35 percent said the issue is moderately important, and 6 percent said it is unimportant.

Resources

ADA Guide Updated

The U.S. Chamber of Commerce has updated its guide on the Americans with Disabilities Act to help newly covered firms comply.

Beginning July 26, employers with 15 or more workers are required to comply with the act's employment-discrimination provisions. Until now, those measures have applied only to firms with 25 or more employees.

The guide is available to U.S. Chamber members for $14 and to nonmembers for $21. To order, call 1-800-638-6582 (in Maryland, call 1-800-352-1450); or write U.S. Chamber of Commerce, Publications Fulfillment (RKVL), 1615 H Street, N.W., Washington, D.C. 20062-2000. Ask for publication No. 0320. Payment can be made by major credit card or by check made payable to the U.S. Chamber of Commerce.

■ In The Senate

Attempt To End Debate On Liability Bill Fails

The Senate failed twice in late June to end debate on legislation to reform the nation's product-liability laws, effectively shelving the bill for this year.

The defeat was a disappointment for the U.S. Chamber of Commerce, which has fought fiercely for the measure for more than 12 years. But proponents, including the Chamber and the Product Liability Coordinating Committee, a business coalition based in Washington, D.C., vowed to continue the fight in 1995. The bill's sponsors, including Sens. John D. Rockefeller IV, D-W.Va., and Slade Gorton, R-Wash., promised the same.

Business had earlier been encouraged because the Senate debate marked the second time in two years that proponents of a federal liability law were able to get the bill to the Senate floor. But on June 29, in their second attempt in as many days to cut off debate, backers fell three votes shy of the 60 needed to clear the way for a vote on the bill. Nineteen Democrats and 38 Republicans voted to end the debate.

Sen. Rockefeller addresses a rally at the U.S. Chamber before the Senate liability debate.

On their first attempt to cut off the filibuster—on June 28—proponents of the bill garnered 54 votes. In 1992, supporters were two votes short.

(See the listing below to determine how your senators voted in the latest attempt to end the debate.)

A simple majority would have been required for passage of the legislation.

"Business and consumers are ill-served by the Senate's failure to approve a federal product-liability law," said Tyler Wilson, the Chamber's manager of legal and regulatory affairs. The federal legislation would have superseded the 50 conflicting state laws, which have created a maze of confusion for firms operating across state borders.

Prospects for sending legislation to the president this year had been considered good because a majority of senators supported the bill. In the House, Rep. John D. Dingell, D-Mich., chairman of the Energy and Commerce Committee, had become a strategically important supporter, and 150 representatives had signed on as co-sponsors of a House liability-reform bill.

■ Product Liability

Proponents of legislation to create a federal product-liability law to preempt conflicting state laws fell three votes short of the 60 needed to end debate and allow for a vote on the bill. Only a simple majority would have been needed for passage.

If your senators voted to clear the way for passage of the bill, thank them. If they voted to continue the debate, or filibuster, tell them you will hold them accountable for that vote.

Voted To Clear Way For Passage

ALASKA
Murkowski (R)
Stevens (R)

ARIZONA
McCain (R)

ARKANSAS
Pryor (D)

CALIFORNIA
Feinstein (D)

COLORADO
Brown (R)

CONNECTICUT
Dodd (D)
Lieberman (D)

FLORIDA
Mack (R)

GEORGIA
Coverdell (R)
Nunn (D)

IDAHO
Craig (R)
Kempthorne (R)

INDIANA
Coats (R)
Lugar (R)

IOWA
Grassley (R)

KANSAS
Dole (R)
Kassebaum (R)

KENTUCKY
McConnell (R)

MARYLAND
Mikulski (D)

MINNESOTA
Durenberger (R)

MISSISSIPPI
Lott (R)

MISSOURI
Bond (R)
Danforth (R)

MONTANA
Burns (R)

NEBRASKA
Exon (D)

NEW HAMPSHIRE
Gregg (R)
Smith (R)

NEW MEXICO
Domenici (R)

NORTH CAROLINA
Faircloth (R)
Helms (R)

NORTH DAKOTA
Conrad (D)
Dorgan (D)

OHIO
Glenn (D)

OKLAHOMA
Boren (D)
Nickles (R)

OREGON
Hatfield (R)
Packwood (R)

PENNSYLVANIA
Specter (R)

RHODE ISLAND
Chafee (R)
Pell (D)

SOUTH CAROLINA
Thurmond (R)

SOUTH DAKOTA
Daschle (D)

TENNESSEE
Mathews (D)
Sasser (D)

TEXAS
Gramm (R)
Hutchison (R)

UTAH
Bennett (R)
Hatch (R)

VERMONT
Jeffords (R)

VIRGINIA
Robb (D)
Warner (R)

WASHINGTON
Gorton (R)

WEST VIRGINIA
Byrd (D)
Rockefeller (D)

WISCONSIN
Kohl (D)

WYOMING
Wallop (R)

Not Voting

ARIZONA
DeConcini (D)

OHIO
Metzenbaum (D)

Voted To Continue Debate

ALABAMA
Heflin (D)
Shelby (D)

ARKANSAS
Bumpers (D)

CALIFORNIA
Boxer (D)

COLORADO
Campbell (D)

DELAWARE
Biden (D)
Roth (R)

FLORIDA
Graham (D)

HAWAII
Akaka (D)
Inouye (D)

ILLINOIS
Moseley-Braun (D)
Simon (D)

IOWA
Harkin (D)

KENTUCKY
Ford (D)

LOUISIANA
Breaux (D)
Johnston (D)

MAINE
Cohen (R)
Mitchell (D)

MARYLAND
Sarbanes (D)

MASSACHUSETTS
Kennedy (D)
Kerry (D)

MICHIGAN
Levin (D)
Riegle (D)

MINNESOTA
Wellstone (D)

MISSISSIPPI
Cochran (R)

MONTANA
Baucus (D)

NEBRASKA
Kerrey (D)

NEVADA
Bryan (D)
Reid (D)

NEW JERSEY
Bradley (D)
Lautenberg (D)

NEW MEXICO
Bingaman (D)

NEW YORK
D'Amato (R)
Moynihan (D)

PENNSYLVANIA
Wofford (D)

SOUTH CAROLINA
Hollings (D)

SOUTH DAKOTA
Pressler (R)

VERMONT
Leahy (D)

WASHINGTON
Murray (D)

WISCONSIN
Feingold (D)

WYOMING
Simpson (R)

GAIN UPDATE

GRASSROOTS ACTION INFORMATION NETWORK

U.S. Chamber of Commerce Federation

GAIN Plays Key Role On Unfunded Mandates

Grass-roots action results in significant Senate committee victory.

In the face of determined opposition, the U.S. Chamber of Commerce scored a significant victory in June in its quest to bring about regulatory reform at the federal level.

At issue are "unfunded mandates"—federal laws and regulations that put the massive cost of implementation on state and local governments, businesses, nonprofit organizations such as hospitals and universities, and individual Americans. Examples include the Fair Labor Standards Act, the Family and Medical Leave Act, the Clean Air Act, and the Occupational Safety and Health Act.

Organizations representing state and local governments and their elected officials have been pushing for relief from unfunded mandates for more than a year.

In fact, numerous bills have been introduced in the Senate and House. Their provisions range from simply requiring an economic-impact analysis of proposed laws and regulations to prohibiting any bill or regulation from being passed without the necessary funds appropriated to pay for it.

Many of these bills, however, do not extend relief from unfunded mandates to business.

In mid-May, Chamber staff members learned that unfunded-mandates legislation was likely to move soon in Congress. The organization's Grassroots Action Information Network (GAIN) was alerted, and its members were encouraged to urge lawmakers to include business in legislation providing protections against such mandates.

On June 16, the Senate Governmental Affairs Committee voted 9-4 to adopt an amendment proposed by Sen. Byron L. Dorgan, D-N.D., to include the private sector in a bill the panel was considering titled the "Small Governments Regulatory Improvement and Innovation Act of 1993" (S. 993).

The panel's approval followed 45 minutes of discussion during which the chairman, John Glenn, D-Ohio, and the committee's ranking minority member, William V. Roth Jr., R-Del., tried to persuade Dorgan not to propose his amendment.

Dorgan hung tough, though, and finally demanded a vote on his amendment. Sens. Sam Nunn, D-Ga., and John McCain, R-Ariz., were vocal in supporting the amendment.

Now, in addition to relief from unfunded mandates for state and local governments, the legislation provides that whenever lawmakers want to impose an unfunded mandate of more than $200 million on the private sector, a cost-impact analysis must be conducted by the Congressional Budget Office and the study considered before the requirement can become law.

If no analysis is conducted, any member of Congress can raise a point of order and prevent further consideration of the legislation until the study is completed.

The Chamber worked closely with Dorgan to get the amendment introduced in the committee, and the response of GAIN participants was critical in achieving the successful committee outcome.

One example of the GAIN system's effectiveness involved Sen. William S. Cohen, R-Maine. Until moments before the tally, it was unclear how Cohen would vote because he had indicated that he had some concerns with the amendment.

Chamber staff members made phone calls to most GAIN activists in Maine, advising them that Cohen was a swing vote and that their calls could help persuade him to support the business position. Cohen ultimately voted for the Chamber-backed amendment.

The next major opportunity for progress on the issue is expected when the bill is considered by the full Senate. At press time, the schedule for debate was uncertain. Opponents were working to have the private-sector amendment stripped from the bill, while the Chamber was working to keep it included.

In addition to its efforts in the Senate, the Chamber is pushing for passage of a similar measure in the House, where consideration of an unfunded-mandate proposal could begin soon. The Chamber has been developing its House strategy.

One major bill addressing the issue in the House is the "Fiscal Accountability and Intergovernmental Reform Act" (H.R. 1295), sponsored by Rep. James P. Moran Jr., D-Va. Moran experienced firsthand what it was like trying to cope with unfunded mandates as the mayor of Alexandria, Va., before his election to the House in 1990.

Moran's bill has 250 co-sponsors and includes relief for both the private sector and the public sector.

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, the U.S. Chamber staff of specialists on legislative and regulatory issues provides activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how you can become a member of this network, call (202) 463-5604.

Another significant House bill is the "Federal Mandates Relief Act of 1993," sponsored by Rep. Gary A. Condit, D-Calif. Condit's proposal, H.R. 140, has 223 co-sponsors but does not apply to the private sector.

"If we can ensure that all members of Congress understand that relief from unfunded mandates is critical . . . we can win this issue."

—Nancy Fulco, U.S. Chamber of Commerce

The bill approved by the Senate Governmental Affairs Committee could also be introduced and voted on in the House.

"This could be a now-or-never opportunity," said Nancy Fulco, a human-resources attorney with the Chamber, referring to the prospects for passage of a measure including business. "If the private sector is not included, our chances of moving separate legislation addressing only business's needs become slim.

"If we can ensure that all members of Congress understand that relief from unfunded mandates is critical for good government, job creation, and competitiveness, we can win this issue," she said.

According to the Chamber, passage of the bill would be a significant step toward improving accountability in the legislative process. It notes that the annual cost of complying with federal regulations has exceeded $400 billion.

Contact your senators and representative and ask them to support inclusion of the private sector in any legislation to provide relief from unfunded mandates. Also, urge them to act on the matter this year. Dial the Senate switchboard at (202) 224-3121, the House switchboard at (202) 225-3121; or write your lawmakers at the U.S. Senate, Washington, D.C. 20510, and the U.S. House of Representatives, Washington, D.C. 20515.

Pressure Builds To Reform The Endangered Species Act

The nationwide proliferation of human "horror stories" resulting from arbitrary, inflexible implementation of the species-protection program is generating growing pressure in Congress to reform the Endangered Species Act.

"The act is the most sweeping, draconian environmental statute because it takes precedence over all other federal laws and because it requires an absolute mandate to protect threatened and endangered flora and fauna with no regard whatsoever to cost or impact on landowners, jobs, and businesses," says Stuart Hardy, manager of energy, food, and natural resources policy for the U.S. Chamber of Commerce.

With the number of protected species and subspecies now approaching the 900 mark, the Clinton administration has accelerated the process of "listing" species, and the amount of privately owned land regulated as "critical habitat" is increasing exponentially.

Once a declining species is identified—and those designated may include an isolated population segment of a species that is plentiful elsewhere—landowners in the area are ordered to cease and desist all activities that may harm the plant or animal or disrupt its habitat.

"Unfortunately, the law has led to absurdities," says Hardy. Recently, for example, California ranchers in the path of a wildfire were threatened with civil and criminal penalties if they attempted to create a firebreak by plowing around their homes because the plow might destroy the habitat of an endangered rat.

Property owners are now beginning to fight back, and their message is being heard in Washington, says Hardy. Identical reform bills, designed to put people back into the policy equation and balance human needs against the needs of plants and animals, are pending in the House and Senate. The measures—H.R. 1490, introduced by Rep. W.J. "Billy" Tauzin, D-La., and S. 1521, sponsored by Sens. Richard C. Shelby, D-Ala., and Slade Gorton, R-Wash.—are gaining co-sponsors of both political parties.

Meanwhile, Tauzin is close to attracting the 218 signatures needed on a discharge petition to force a House vote on his proposal to compensate landowners for the loss of value resulting from a species habitat or wetland designation.

Two recent federal court decisions have underscored the need for reform. In *Sweet Home vs. Babbitt*, the U.S. District Court of Appeals for the Washington, D.C. Circuit, ruled against the overregulation of habitat; in *Building Industry Association vs. Babbitt*, the same court voided the inclusion of the California knatcatcher, a bird, on the endangered list because the listing process was "arbitrary, capricious, and an abuse of discretion."

On June 24, the U.S. Supreme Court strengthened property rights by further limiting the ability of state and local governments to take private property without just compensation. The case was *Dolan vs. Tigart*.

The Clinton administration appears to be feeling the heat. Interior Secretary Bruce Babbitt recently announced a series of policy changes aimed at greater public involvement, better science in "listing" determinations, and better communication with affected landowners.

While these initiatives are a small step in the right direction, Hardy says, another Babbitt proposal—ecosystem management—is highly problematic. Babbitt plans to regulate entire ecosystems rather than focus exclusively on single species. The Chamber is concerned that this approach could rapidly degenerate into federal land-use planning of the most intrusive sort.

Contact your representative and senators and ask them to co-sponsor, respectively, these Endangered Species Act reform bills—H.R. 1490, introduced by Rep. W.J. "Billy" Tauzin, and S. 1521, introduced by Sens. Richard C. Shelby, D-Ala., and Slade Gorton, R-Wash. Tell them that you don't want federal land-use planning masquerading as "ecosystem management."

With House Highway System Win In Hand, Chamber Works To Gain Senate Co-sponsors

Congress is considering important legislation designed to separate vital transportation investment from pork-barrel spending. The House passed its version of the National Highway System Designation Act, 412-12, in late June—an important victory for the U.S. Chamber of Commerce. But similar legislation is now languishing in the Senate.

By law, Congress has until Sept. 30, 1995, to approve a highway system plan; however, the Chamber is urging lawmakers to complete their business on the matter this year.

Getting the Senate to move the bill to the front burner will require additional co-sponsors, according to Bob Parija, manager of transportation policy for the Chamber.

Sponsors of the Senate bill, S. 1887, currently include Sen. Max Baucus, D-Mont., chairman of the Senate Environment and Public Works Committee, and 13 other senators.

The highway legislation would help expand markets and boost employment.

They are: Conrad Burns, R-Mont.; Dave Durenberger, R-Minn.; Wendell H. Ford, D-Ky.; Bob Graham, D-Fla.; Charles E. Grassley, R-Iowa; Howell T. Heflin, D-Ala.; Frank R. Lautenberg, D-N.J.; Mitch McConnell, R-Ky.; Daniel Patrick Moynihan, D-N.Y.; Harry Reid, D-Nev.; Paul S. Sarbanes, D-Md.; John W. Warner, R-Va.; and Harris Wofford, D-Pa.

The Chamber has activated its Grassroots Action Information Network (GAIN) to encourage senators to become co-sponsors. Meanwhile, it is urging the rest of its membership to help with the effort as well.

The legislation focuses on the most important roads that serve U.S. economic and defense needs. Under the measure, states would receive $6.5 billion a year for improvements and repairs to the designated roadways and for additional highway construction.

In 1991, Congress acknowledged the fundamental need for an effective surface transportation infrastructure to ensure national economic prosperity by passing the Intermodal Surface Transportation Efficiency Act (ISTEA).

To address the post-interstate transportation needs of the country, ISTEA provided a framework for a National Highway System (NHS). The measure required the U.S. secretary of transportation to transmit an NHS priority map designating a 158,674-mile network to Congress by December 1993.

In fulfilling ISTEA's vision of key roads receiving critical funding, the NHS would consist of an integrated network of the most important interstate highways, roads considered essential for defense needs, and principal arterial roads that support interstate, interregional, defense, and intermodal commerce and travel.

Rural mileage would account for 75 percent of the system, or 118,834 miles, while total urban mileage would represent 25 percent of the system, or 39,840 miles.

Although the system, as envisioned, accounts for only 4 percent of America's total roadway mileage, the NHS would carry 40 percent of all U.S. traffic and 75 percent of commercial vehicle travel. Because the NHS would provide links to the 104 most important ports, 143 major airports, 321 major train stations, 191 rail/truck terminals, 242 military and defense-related installations, and national road systems in Mexico and Canada, it has garnered diverse support from users and providers of various modes of transportation.

According to the Chamber, passage and enactment of the legislation would lead to:

- The creation of thousands of jobs by expanding markets for American products, reducing U.S. transportation costs, increasing industrial productivity, and improving competitiveness at home and abroad.
- Greater access to new opportunities for businesses and individuals by reducing urban congestion, connecting rural America with U.S. marketplaces and ports, and making our cultural and scenic wonders easier to explore.
- A greater likelihood that the United States would meet its national goal of reducing the highway fatality rate by 7 percent annually.
- The advancement of U.S. transportation technology and expertise.
- Improved air quality by reducing congestion in major urban areas.

Call or write your senators. If they are not among the 14 co-sponsors of the Senate highway bill (S. 1887), urge them to become one now. Tell them their sponsorship is essential to raising the level of priority of this issue, which is critical to future economic growth. Also ask them to offer their support to Sen. Max Baucus, D-Mont., for prompt enactment of the National Highway System bill this year. For more information, call Bob Parija at (202) 463-5528.

Action Needed Now To Get Lawmakers To Sign Petition To Force Vote On "A To Z" Bill

Action by U.S. Chamber of Commerce members could help force a vote on a proposal to limit federal spending.

The proposal is the bipartisan "A to Z" bill introduced by Reps. Robert E. Andrews, D-N.J., and Bill H. Zeliff Jr., R-N.H. Under the legislation, any House member could propose a specific spending cut and have it voted on. If approved, a cut would become part of a total package that would subsequently be voted on without amendment.

Because House leaders have no plans to let the bill come up for debate, a discharge petition signed by 218 House members is necessary to force floor consideration of the measure. The U.S. Chamber and other backers of the bill had helped obtain 204 signatures by July 11. But Chamber lobbyists believe a strong push by representatives' constituents is more essential now than ever to gain the other 14 signatures needed.

Review the list on the following page. If your representative has not signed the discharge petition, urge him or her to do so immediately. If your representative is an "A to Z" bill co-sponsor but has not signed the discharge petition, ask for an explanation, and implore him or her to help allow the bill to be considered by the full House.

"A To Z" Discharge Petition Signees

GOP (167):

Allard, Wayne
Archer, Bill
Armey, Richard K.
Bachus, Spencer T., III
Baker, Bill
Baker, Richard H.
Ballenger, Cass
Barrett, Bill
Bartlett, Roscoe G.
Barton, Joe
Bentley, Helen Delich
Bereuter, Doug
Bilirakis, Michael
Bliley, Thomas J., Jr.
Blute, Peter I.
Boehner, John A.
Bonilla, Henry
Bunning, Jim
Burton, Dan
Buyer, Steve
Callahan, Sonny
Calvert, Ken
Camp, David
Canady, Charles T.
Castle, Michael N.
Clinger, William F., Jr.
Coble, Howard
Collins, Mac
Combest, Larry
Cox, C. Christopher
Crane, Philip M.
Crapo, Michael D.
Cunningham, Randy "Duke"
DeLay, Tom
Diaz-Balart, Lincoln
Dickey, Jay
Doolittle, John T.
Dornan, Robert K.
Dreier, David
Duncan, John J., Jr.
Dunn, Jennifer
Ehlers, Vern J.
Emerson, Bill
Everett, Terry
Ewing, Thomas W.
Fawell, Harris W.
Fields, Jack
Fish, Hamilton, Jr.
Fowler, Tillie K.
Franks, Bob
Franks, Gary A.
Gallegly, Elton
Gallo, Dean A.
Gekas, George W.
Gilchrest, Wayne T.
Gillmor, Paul E.
Gingrich, Newt
Goodlatte, Robert W.
Goodling, William F.
Goss, Porter J.
Grams, Rod
Grandy, Fred
Greenwood, Jim
Gunderson, Steve
Hancock, Mel
Hansen, James V.
Hastert, J. Dennis
Hefley, Joel
Herger, Wally
Hoekstra, Peter
Hoke, Martin R.
Horn, Steve
Houghton, Amo
Huffington, Michael
Hunter, Duncan L.
Hutchinson, Tim
Hyde, Henry J.

Inglis, Bob
Inhofe, James M.
Istook, Ernest J., Jr.
Johnson, Sam
Johnson, Nancy L.
Kasich, John R.
Kim, Jay C.
King, Peter T.
Kingston, Jack
Klug, Scott L.
Knollenberg, Joseph
Kolbe, Jim
Kyl, Jon L.
Lazio, Rick A.
Leach, Jim A.
Levy, David A.
Lewis, Ron
Lewis, Tom
Lightfoot, Jim
Linder, John
Livingston, Bob
Lucas, Frank
Machtley, Ronald K.
Manzullo, Donald
McCandless, Alfred "Al"
McCollum, Bill
McCrery, Jim
McHugh, John M.
McInnis, Scott
McKeon, Howard P. "Buck"
McMillan, J. Alex
Meyers, Jan
Mica, John L.
Michel, Robert H.
Miller, Dan
Molinari, Susan
Moorhead, Carlos J.
Morella, Constance A.
Nussle, Jim
Oxley, Michael G.
Packard, Ron
Paxon, Bill
Petri, Thomas E.
Pombo, Richard W.
Porter, John Edward
Portman, Rob
Pryce, Deborah
Quillen, James H.
Quinn, Jack
Ramstad, Jim
Ravenel, Arthur, Jr.
Ridge, Thomas J.
Roberts, Pat
Rohrbacher, Dana
Ros-Lehtinen, Ileana
Roth, Toby
Roukema, Marge
Royce, Edward R.
Santorum, Rick
Saxton, H. James
Schiff, Steven H.
Sensenbrenner, F. James, Jr.
Shaefer, Dan
Shaw, E. Clay, Jr.
Shays, Christopher
Shuster, Bud
Smith, Christopher H.
Smith, Lamar
Smith, Nick
Smith, Robert F.
Solomon, Gerald B. H.
Spence, Floyd
Stearns, Cliff
Stump, Bob
Sundquist, Don
Talent, James M.
Taylor, Charles H.
Thomas, Bill
Thomas, Craig
Torkildsen, Peter G.
Upton, Frederick S.
Vucanovich, Barbara F.
Walker, Robert S.
Walsh, James T.
Weldon, Curt
Wolf, Frank R.
Young, C. W. Bill
Young, Don
Zeliff, Bill H., Jr.
Zimmer, Dick

Democrat Signees (37):

Andrews, Robert E.
Baesler, Scotty
Bilbray, James H.
Browder, Glen
Brown, Sherrod
Cantwell, Maria
Condit, Gary A.
Cooper, Jim
Coppersmith, Sam
Deal, Nathan
DeFazio, Peter A.
English, Karan
Fingerhut, Eric D.
Geren, Pete
Hayes, James A.
Hall, Ralph M.
Harman, Jane
Holden, Tim
Inslee, Jay
Jacobs, Andrew, Jr.
Johnson, Don
Mann, David S.
Margolies-Mezvinsky, Marjorie
McCurdy, Dave
McHale, Paul
Meehan, Martin T.
Minge, David
Penny, Timothy J.
Peterson, Collin C.
Poshard, Glenn
Roemer, Tim J.
Schenk, Lynn
Slattery, Jim
Stenholm, Charles W.
Swett, Dick
Tauzin, W. J. "Billy"
Thurman, Karen L.

"A To Z" Co-sponsors In GOP Who Have Not Signed Discharge Petition:

Bateman, Herbert H.
Boehlert, Sherwood L.
Gilman, Benjamin A.
Hobson, David L.
Lewis, Jerry
Myers, John T.
Regula, Ralph
Skeen, Joe
Snowe, Olympia J.

Unsigned Democratic Co-sponsors:

Bacchus, Jim
Barca, Peter W.
Barcia, James A.
Clement, Bob
Danner, Pat
Deutsch, Peter
Dooley, Calvin M.
Green, Gene
Hutto, Earl
Johnson, Tim
Lloyd, Marilyn
Maloney, Carolyn B.
Murphy, Austin J.
Orton, William H.
Parker, Mike
Stupak, Bart
Taylor, Gene
Trafficant, James A., Jr.
Valentine, Tim
Wyden, Ron

■ Boosting Democracy

CIPE Awaits Fiscal '95 Funding Decision

Among its worldwide programs, CIPE provided funding to a business federation in Botswana that promotes entrepreneurship in southern Africa.

The U.S. Chamber of Commerce affiliate that fosters developing free-market economies is awaiting U.S. Senate approval of its financing for fiscal 1995.

The affiliate is the Center for International Private Enterprise (CIPE), which is based in the Chamber's headquarters in Washington.

The vote by the Senate will be on funding for the National Endowment for Democracy (NED), which distributes money to CIPE and other organizations for projects encouraging democratic principles abroad.

As the business participant in the NED, the center has completed more than 300 projects in 40 countries during its 11 years.

In late June, the House passed an appropriations bill for the Departments of Commerce, Justice, and State, and independent agencies that includes $33 million for the NED for fiscal 1995, which begins Oct. 1, 1994.

The Senate was expected to take up the appropriations measure after it returned in mid-July from a Fourth of July recess.

According to Willard A. Workman, U.S. Chamber vice president/international, "The NED is an area that unites both Democrats and Republicans, business and labor because all of us can see the value to America of building free-enterprise and democratic systems in other countries."

Among its recent endeavors, CIPE:

■ Held a five-day management-training program for Russian business association executives in Moscow.

■ Provided a grant to the Botswana Confederation of Commerce, Industry and Manpower to help business associations in southern Africa. The confederation advances business advocacy, public awareness of the role of the entrepreneur, and economic reforms.

■ Made a grant—with the Soros Fund, a New York-based philanthropic organization—for teaching corporate governance in Eastern Europe.

■ Gave support to the Liberal Institute of Rio de Janeiro (ILRJ) in Brazil, which works to encourage the country's legislature to adopt free-market and fiscal reforms.

In determining which projects to back, CIPE considers an organization's capabilities, ongoing activities, finances, and overall effectiveness.

■ Help For Firms

Brochures Offer Aid

Brochures designed to help company owners with their business operations and with their efforts to comply with federal laws and regulations are available free to members of the U.S. Chamber of Commerce.

The publications and their order numbers include:

■ *How to Comply with the Immigration Reform Act* (#2001)

■ *How to Sell to the Federal Government* (#2002)

■ *How to Manage Risk and Control Your Insurance Costs* (#2003)

■ *How to Expand Your Market Through Exporting* (#2004)

■ *How to Obtain Good Legal Advice and Control Your Legal Costs* (#2006)

■ *How to Obtain Small Business Financing* (#2007)

■ *How to Prevent Drug Abuse in the Workplace* (#2008)

■ *How to Manage AIDS in the Workplace* (#2009)

■ *How to Comply with the OSHA Hazard Communication Standard* (#2011)

■ *How to Test Your Benefit Plans for Discrimination* (#2013)

■ *How to Locate Information for Your Family Business* (#2014)

■ *How to Succeed in Franchising* (#2015)

■ *How to Comply with the Americans with Disabilities Act* (#2016)

■ *How to Communicate with Your Congressional Representatives* (#2017)

■ *How to Comply with the Civil Rights Act of 1991* (#2018)

■ *How to Comply with the Family and Medical Leave Act* (#2019)

■ *How to Comply with OSHA* (#2020)

To order copies of the brochures, call 1-800-638-6582 (in Maryland, call 1-800-352-1450), or write: U.S. Chamber of Commerce, Publications Fulfillment (RKVL), 1615 H Street, N.W., Washington, D.C. 20062-2000, or fax orders to (301) 468-5150. Include the publication number in your request.

For bulk orders of 50 or more copies, there is a charge of 10 cents per brochure.

The U.S. Chamber of Commerce presented its annual Spirit of Enterprise Award to 44 senators and 177 representatives at a June reception on Capitol Hill. The lawmakers, including those featured here, were honored for their strong support of business during 1993.

The award goes to lawmakers who back the Chamber position on issues identified as critical to business at least 70 percent of the time during the previous session of Congress. (For the complete list of winners, see Page 90.)

Spirit of Enterp

COMES ALIVE ON CAPITOL HILL

Chamber Small Business Council member James Britt, left, and Chamber board member Carol L. Ball greet Sen. Connie Mack, R-Fla. Mack was one of 44 senators honored by the Chamber.

Sen. Dirk Kempthorne, R-Idaho

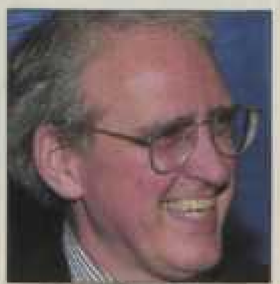
Sen. Don Nickles, R-Okla.

Sen. Kay Bailey Hutchison, R-Texas

Rep. James A. Hayes, D-La.

Far left, Ivan W. Gorr, former U.S. Chamber chairman and a current member of the board, left, talks with Spirit of Enterprise Award winner Rep. Cliff Stearns, R-Fla. At immediate left, Sen. Hank Brown, R-Colo., right, talks with, left to right, Lonnie Taylor, the Chamber's liaison with the Senate, Chamber board member Thomas P. Brock, and Julie Gackenbach, director of the Chamber's tax-policy center.

rise



Rep. Dan Miller, R-Fla.

Rep. John A. Boehner, R-Ohio

Rep. Jennifer Dunn, R-Wash., left, talks with Chamber board member Robert M. Andrews and his wife, Marilyn, at the Spirit of Enterprise Award reception.

Sen. Paul Coverdell, R-Ga., discusses health-care reform with Chamber board member Margie Mills, of Brunswick, Ga.

Above, Rep. Tillie K. Fowler, R-Fla., receives the Chamber's Spirit of Enterprise Award from 1994-95 Chamber Chairman William C. Marcil, left, and Chamber President Richard L. Lesher. At right, Willard A. Workman, Chamber vice president/international, makes a point to Sen. John McCain, R-Ariz.

Rep. Charles W. Stenholm, D-Texas, left, with Gordon MacKay, vice president of The New England financial firm of Boston.

■ In Congress

Spirit Award Winners

Listed here are the 44 U.S. senators and 177 representatives who recently received the U.S. Chamber of Commerce's Spirit of Enterprise Award, based on votes cast in 1993.

The award is given to lawmakers who voted in support of the Chamber's position on legislation at least 70 percent of the time during the previous congressional session. Each member's vote rating is based on an annual analysis of votes on selected business issues as reported in the Chamber's *How They Voted* publication.

U.S. Senate

ALABAMA
Richard C. Shelby (D)

ALASKA
Frank H. Murkowski (R)
Ted Stevens (R)

ARIZONA
John McCain (R)

COLORADO
Hank Brown (R)

DELAWARE
William V. Roth Jr. (R)

FLORIDA
Connie Mack (R)

GEORGIA
Paul Coverdell (R)
Sam Nunn (D)

IDAHO
Larry E. Craig (R)
Dirk Kempthorne (R)

INDIANA
Daniel R. Coats (R)
Richard G. Lugar (R)

IOWA
Charles E. Grassley (R)

KANSAS
Bob Dole (R)
Nancy Landon Kassebaum (R)

KENTUCKY
Mitch McConnell (R)

MAINE
William S. Cohen (R)

MINNESOTA
Dave Durenberger (R)

MISSISSIPPI
Thad Cochran (R)
Trent Lott (R)

MISSOURI
Christopher S. "Kit" Bond (R)
John C. Danforth (R)

MONTANA
Conrad Burns (R)

NEW HAMPSHIRE
Judd Gregg (R)
Robert C. Smith (R)

NEW MEXICO
Pete V. Domenici (R)

NEW YORK
Alfonse M. D'Amato (R)

NORTH CAROLINA
Jesse Helms (R)

OKLAHOMA
Don Nickles (R)

OREGON
Mark O. Hatfield (R)
Bob Packwood (R)

PENNSYLVANIA
Arlen Specter (R)

RHODE ISLAND
John H. Chafee (R)

SOUTH CAROLINA
Strom Thurmond (R)

SOUTH DAKOTA
Larry Pressler (R)

TEXAS
Phil Gramm (R)
Kay Bailey Hutchison (R)

UTAH
Robert F. Bennett (R)
Orrin G. Hatch (R)

VIRGINIA
John W. Warner (R)

WASHINGTON
Slade Gorton (R)

WYOMING
Alan K. Simpson (R)
Malcolm Wallop (R)

U.S. House Of Representatives

ALABAMA
Spencer Bachus (R)
Sonny Callahan (R)
Terry Everett (R)

ALASKA
Don Young (R)

ARIZONA
Jim Kolbe (R)
Jon L. Kyl (R)
Bob Stump (R)

ARKANSAS
Jay Dickey (R)
Tim Hutchinson (R)

CALIFORNIA
Bill Baker (R)
Ken Calvert (R)
C. Christopher Cox (R)
Randy "Duke" Cunningham (R)
John T. Doolittle (R)
Robert K. Dornan (R)
David Dreier (R)
Elton Gallegly (R)
Wally Herger (R)
Steve Horn (R)
Michael Huffington (R)
Duncan L. Hunter (R)
Jay C. Kim (R)
Jerry Lewis (R)
Alfred A. McCandless (R)
Howard P. "Buck" McKeon (R)
Carlos J. Moorhead (R)
Ron Packard (R)
Richard W. Pombo (R)
Dana Rohrabacher (R)
Edward R. Royce (R)
Bill Thomas (R)

COLORADO
Wayne Allard (R)
Joel Hefley (R)
Scott McInnis (R)
Dan Schaefer (R)

CONNECTICUT
Gary A. Franks (R)
Nancy L. Johnson (R)

DELAWARE
Michael N. Castle (R)

FLORIDA
Michael Bilirakis (R)
Charles T. Canady (R)
Lincoln Diaz-Balart (R)
Tillie K. Fowler (R)
Porter J. Goss (R)
Tom Lewis (R)
Bill McCollum (R)
John L. Mica (R)
Dan Miller (R)
Ileana Ros-Lehtinen (R)
E. Clay Shaw Jr. (R)
Cliff Stearns (R)
C.W. Bill Young (R)

GEORGIA
Mac Collins (R)
Nathan Deal (D)
Newt Gingrich (R)
Jack Kingston (R)
John Linder (R)
J. Roy Rowland (D)

IDAHO
Michael D. Crapo (R)

ILLINOIS
Philip M. Crane (R)
Thomas W. Ewing (R)
Harris W. Fawell (R)
J. Dennis Hastert (R)
Henry J. Hyde (R)
Donald Manzullo (R)
Robert H. Michel (R)
John Edward Porter (R)

INDIANA
Dan Burton (R)
Steve Buyer (R)
John T. Myers (R)

IOWA
Fred Grandy (R)
Jim Leach (R)
Jim Ross Lightfoot (R)
Jim Nussle (R)

KANSAS
Jan Meyers (R)
Pat Roberts (R)

KENTUCKY
Jim Bunning (R)
Harold Rogers (R)

LOUISIANA
Richard H. Baker (R)
James A. Hayes (D)
Robert L. Livingston (R)
Jim McCrery (R)
W.J. "Billy" Tauzin (D)

MARYLAND
Roscoe G. Bartlett (R)
Helen Delich Bentley (R)
Wayne T. Gilchrest (R)
Constance A. Morella (R)

MASSACHUSETTS
Peter G. Torkildsen (R)

MICHIGAN
David Camp (R)
Peter Hoekstra (R)
Joseph R. Knollenberg (R)
Nick Smith (R)
Frederick S. Upton (R)

MINNESOTA
Rod Grams (R)
Jim Ramstad (R)

MISSISSIPPI
Mike Parker (D)
Gene Taylor (D)

MISSOURI
Bill Emerson (R)
Mel Hancock (R)
James M. Talent (R)

NEBRASKA
Bill Barrett (R)
Doug Bereuter (R)

NEVADA
Barbara F. Vucanovich (R)

NEW HAMPSHIRE
Bill Zeliff Jr. (R)

NEW JERSEY
Bob Franks (R)
Dean A. Gallo (R)
Marge Roukema (R)
James H. Saxton (R)
Dick Zimmer (R)

NEW MEXICO
Steven H. Schiff (R)
Joe Skeen (R)

NEW YORK
Hamilton Fish Jr. (R)
Amo Houghton (R)
Peter T. King (R)
Rick A. Lazio (R)
David A. Levy (R)
John M. McHugh (R)
Susan Molinari (R)
Bill Paxon (R)
Gerald B.H. Solomon (R)

NORTH CAROLINA
Cass Ballenger (R)
Howard Coble (R)
Alex McMillan (R)
Charles H. Taylor (R)

OHIO
John A. Boehner (R)
Paul E. Gillmor (R)
David L. Hobson (R)
Martin R. Hoke (R)
John R. Kasich (R)
Michael G. Oxley (R)
Rob Portman (R)
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■ International

Chamber Counters Trade-Pact Critics

House and Senate committees are expected to take up legislation soon to implement the Uruguay Round pact signed by 117 countries in mid-April under the General Agreement on Tariffs and Trade (GATT).

Some of the controversy surrounding the pact is over the World Trade Organization (WTO) and how the agreement would be financed. The WTO would be created to administer the agreement and resolve trade disputes among GATT member countries.

Critics have said the organization would infringe on U.S. sovereignty and threaten America's ability to maintain its environmental laws and labor and consumer standards.

But Willard A. Workman, U.S. Chamber vice president/international, told the House Ways and Means Committee on June 10 that the Chamber "has concluded that the WTO does not infringe upon U.S. sovereignty."

The WTO would in fact, he said, give the U.S. additional leverage to achieve fairness and timeliness in resolving world trade disputes.

Workman noted, however, that "the risk that WTO might be abused ...stems from the possibility that the United States will pursue misguided policies, not from any inherent deficiencies in the WTO itself."

The Clinton administration recently sent legislation to Capitol Hill that would implement the trade pact and grant "fast-track" trade negotiating authority to the president. The measure, however, would also tie trade to environmental and labor standards, such as minimum-wage laws—the kind of move Workman cautioned against.

("Fast-track" authority requires Congress to approve or disapprove trade pacts negotiated by the White House within a specific number of days without amendments.)

U.S. Chamber Vice President Willard A. Workman told a House panel that the GATT trade pact would not threaten U.S. sovereignty.

In a letter to U.S. Trade Representative Mickey Kantor, the Chamber objected to the administration's proposed measure and urged it to adopt the same trade-negotiating objectives contained in the Omnibus Trade and Competitiveness Act of 1988. Those objectives generally called for reductions in tariff and nontariff barriers to trade and for inclusion of services and intellectual-property protection in any trade pact.

On the cost of implementing GATT, Workman countered critics by noting that the agreement would more than make up for the expense through increased world trade.

The Uruguay Round agreement is expected to cut global tariffs by more than one-third, eliminate tariffs in some export sectors, protect intellectual-property rights, reduce agricultural subsidies, and bring trade in services, such as banking and insurance, under GATT's auspices. The accord will take effect Jan. 1, 1995, if Congress approves implementing language this year.

■ Litigation

NCLC Sues Over Pollution Rule

The U.S. Chamber of Commerce is suing the U.S. Department of the Interior over an environmental regulation that could prove quite costly for business.

The National Chamber Litigation Center, the Chamber's nonprofit legal affiliate, filed suit over the measure June 21 in the U.S. Court of Appeals for the District of Columbia Circuit. The suit challenges a rule related to the Superfund law—the Comprehensive Environmental Response Compensation and Liability Act—which deals with releases of pollutants to land, water, or air.

The law allows for the recovery of monetary damages for cleanup costs and the destruction of natural resources. Damages are based on the costs of restoring, rehabilitating, replacing, or acquiring the equivalent of the resource that is lost or damaged.

The rule NCLC is challenging affects "potentially responsible parties"—typically businesses—involved with polluted areas designated as Superfund sites.

The Chamber is suing the Interior Department over the regulation's provision dealing with "natural resource damage assessments."

While the Superfund law requires that "cost-effective" restoration decisions be made for repairing natural resources, the Chamber's litigation center is arguing that the Interior Department's regulation fails to give adequate guidance for making those decisions.

NCLC is also challenging the department's view that natural-resource repair plans do not have to be consistent with Superfund cleanup plans, which are issued by the Environmental Protection Agency. In addition, the litigation center says the rule unlawfully extends the time for filing a natural-resources cost-recovery action beyond that set forth in the Superfund law, which was adopted in 1980 and rewritten in 1986.

NCLC Vice President Robin S. Conrad explains why Interior Department rule prompted suit.